U.S. General Services Administration

2009 AGENCY FINANCIAL REPORT

A Legacy of Service, a Pursuit of Excellence

About this report

This Agency Financial Report (AFR) for fiscal year (FY) 2009 provides the U.S. General Services Administration's (GSA) financial and performance information, enabling the president, Congress and the American people to assess the Agency's performance as provided by the requirements of the:

- Reports Consolidation Act of 2000 and other laws
- Government Management Reform Act of 1994
- Government Performance and Results Act (GPRA) of 1993
- Chief Financial Officers (CFO) Act of 1990
- Federal Managers' Financial Integrity Act (FMFIA) of 1982
- Office of Management and Budget (OMB) Circular A-136

GSA's Strategic Plan, Performance Plan, Congressional Justifications and previous Performance and Accountability Reports are available at *GSA.gov/annualreport*. GSA welcomes feedback on the form and content of this report. If you wish to provide feedback please contact Michael Swanchara at (202) 501-1905 or *michael.swanchara@gsa.gov*.

MISSION STATEMENT

GSA leverages the buying power of the federal government to acquire best value for taxpayers and our federal customers. We exercise responsible asset management. We deliver superior workplaces, quality acquisition services and expert business solutions. We develop innovative and effective management policies.

STRATEGIC GOALS

Stewardship

Lead federal agencies in the economical and efficient management of federal assets by spearheading effective policy development and by the exemplary management of the buildings/workplaces, motor vehicles and personal property provided by GSA.

Superior Workplaces

Deliver and maintain productive workplaces consisting of office space, furnishings, technology, supplies and related services.

Best Value

Develop and deliver timely, accurate and cost-effective acquisition services and business solutions.

Innovation

Develop new and better ways of conducting business that result in more productive and effective federal policies and administrative operations.

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Letter from the Administrator

As Acting Administrator of the U.S. General Services Administration (GSA), I am proud to present GSA's Fiscal Year (FY) 2009 Agency Financial Report (AFR), which details our accomplishments and challenges in program and financial management over the past year. The audit opinion and financial results reported in the AFR verify that GSA's financial operations comply with federal financial regulations, U.S. Department of the Treasury guidance and generally accepted accounting principles (GAAP). GSA's AFR should give our customers confidence that we will acquire goods and services on their behalf with the same care, compliance and stewardship that they apply to managing their own funds. The results reported in the AFR reflect GSA's commitment to realizing our four customer-centric strategic goals: Stewardship, Superior Workplaces, Best Value and Innovation.

Paul F. Prouty

In FY 2009, GSA received another unqualified "clean" opinion from our independent auditors. We believe that an unqualified opinion makes a powerful statement to our customers, and to the American public, that GSA is committed to handling Agency funding and taxpayer dollars with care and attention to detail. We are proud of this accomplishment but recognize that this success only continues through GSA's commitment to continuous improvement of our internal controls.

Financial, Systems and Performance Data Assurances

As outlined in the Management Assurances section of this report, GSA conducted its assessment of the effectiveness of internal control over operations, systems and financial reporting. GSA can provide reasonable assurance that internal controls were operating effectively in each of these areas. A more detailed discussion of this topic can be found in the Management Assurances section of this report.

Throughout the year, our senior managers assess the efficiency and effectiveness of their organizations by analyzing financial and performance data. Management relies on this data to identify material inadequacies in financial and program performance areas and to identify corrective actions needed to resolve them. As required by the Reports Consolidation Act of 2000, I have assessed the financial and performance data used in this report, and believe it to be complete and reliable.

In previous years, GSA produced a Performance and Accountability Report (PAR) which combined GSA's financial and performance results into a single document. This year, GSA has chosen an alternative to the PAR pursuant to the Office of Management and Budget's (OMB) Circular A-136, Financial Reporting Requirements. For GSA's detailed performance information, see GSA's FY 2011 Congressional Justification which will be published during February 2010, and available at GSA.gov/annualreport.

Looking Forward

During FY 2009, GSA was appropriated approximately $5.9 billion under the American Recovery and Reinvestment Act (Recovery Act) of 2009. The majority of these funds ($5.6 billion) will be used to convert federal buildings into high performance green buildings and to build new energy-efficient federal buildings, courthouses and land ports of entry. By the end of FY 2009, $1.4 billion of the $5.6 billion was obligated. Additionally, GSA was appropriated $300 million in Recovery Act funding to improve the efficiency of the federal automotive fleet. By the end of FY 2009, nearly all of the $300 million was obligated to acquire new, more efficient vehicles. During FY 2010, GSA will continue to manage the Recovery Act funding with the goals of: greening the federal government, ensuring that the funds make the largest economic impact possible, and using the funds in a timely fashion. In the immediate future, GSA's major challenge will be to properly manage this increase in funding, but our Agency is excited to face this challenge head-on.

FY 2009 was an exciting time to be at GSA. We celebrated our 60th anniversary, transitioned a new presidential administration, and were given a major role in greening federal buildings and the federal fleet, in the Recovery Act. Even 60 years after GSA was hailed as "a major step on the long road" toward a high-performing, more efficient government, GSA is still being called on to serve the American taxpayer and improve the federal government. As always, GSA will continue to satisfy our customers' needs through business excellence, delivered by employees who are dedicated, well-trained and excited to go to work each day.

Paul F. Prouty
Acting Administrator
November 12, 2009

How GSA Benefits the Public

GSA is in its sixth decade of providing goods, services and workspace to federal agencies at best value. It is through GSA's federal building lobbies that civil servants and citizens enter the places of government activity. It is through GSA's electronic portals that Americans access information about the government, and it is through GSA's contract vehicles and procurement processes that industry offers its services and products to the government. GSA introduces, shapes, structures and facilitates ways for the government to interact with itself, with citizens and with industry.

If a citizen meets a federal employee outside of an office setting, it is likely that the employee arrived in a motor vehicle purchased or maintained by GSA. Nearly all federal activities are conducted using furniture, computer equipment and office supplies procured through GSA. GSA provides direct access to a wide range of government services as well as consumer protection information by managing the official Web portals of the federal government, *USA.gov* and *GobiernoUSA.gov,* its Spanish-language counterpart. GSA helps keep the nation safe by providing tools, equipment and nontactical vehicles to the U.S. military; and by providing federal, state and local governments with law enforcement equipment, firefighting and rescue equipment, and disaster recovery products and services.

The following examples highlight a few of the many instances in which GSA delivered tangible benefits to the public in FY 2009.

American Recovery and Reinvestment Act

The Recovery Act provided GSA with $5.9 billion. Using these funds, GSA plans to deliver two key goals: stimulate the U.S. economy by spending the funds quickly and improve the environmental performance of federal assets, particularly reducing American dependence on carbon-based fuels. The Recovery Act funds were provided to GSA for two major programs.

Public Buildings Service

The Public Buildings Service's (PBS) Federal Buildings Fund (FBF) was appropriated $5.6 billion in Recovery Act funds. PBS is using the appropriation for new construction and renovations of federal buildings, U.S. courthouses and land ports of entry. The funds will be used to convert GSA facilities into high-performance green buildings, in compliance with the Energy Independence and Security Act of 2007.

- PBS obligated the first billion dollars of Recovery Act investment funding by August 1, 2009, just 120 days after the expenditure plan for these funds was transmitted to Congress. This first milestone of the Recovery Act funded 125 building and construction projects across the country.

Illustration of the U.S. courthouse in Austin, TX. One of the 125 programs funded with GSA's first billion of Recovery Act appropriations.

- Of the $5.6 billion appropriated to PBS, $3 million of Recovery Act funds were allocated for training programs registered with the U.S. Department of Labor (DOL). DOL recommended two locations impacted by the economic downturn, Portland, OR and Washington, D.C. These locations are suitable for certified pre-apprenticeship and/or registered apprenticeship programs.

- In September 2009, GSA broke ground on the U.S. Department of Homeland Security (DHS) consolidated headquarters in the Washington, D.C. metro area. GSA is collaborating with DHS, congressional and city leaders to build a state-of-the-art sustainable workplace for DHS, while preserving the historic nature of the St. Elizabeths site. This project, the largest federal construction project since the Pentagon, is funded in part by Recovery Act appropriations to GSA and DHS. The first phase of the project will be the construction of a new headquarters for the U.S. Coast Guard.

Illustration of the new U.S. Coast Guard headquarters on the St. Elizabeths campus.

- By September 30, 2009, PBS had obligated nearly $1.4 billion to begin work on 189 building and construction projects. PBS will obligate its remaining $4.2 billion in Recovery Act construction funds by September 30, 2011. For more information on GSA's Recovery Act progress, visit *GSA.gov/recovery*.

Federal Acquisition Service

GSA was appropriated $300 million to be used by the Federal Acquisition Service (FAS) in Recovery Act funds. These funds have been used to procure new, more fuel-efficient motor vehicles to replace older ones in the federal inventory. Each vehicle purchased had a higher miles-per-gallon rating than the vehicle it replaced, and overall the procurement provided a minimum of a 10 percent increase in fuel-efficiency over the replaced vehicles.

- FAS will pilot advanced technology vehicles in the GSA Fleet. These vehicles will be owned by GSA, but operated by other federal agencies through GSA's vehicle lease program. Under this pilot program, GSA will focus on compressed natural gas (CNG), hybrid buses and low-speed electric vehicles.

- During FY 2009, FAS obligated nearly $300 million and purchased 17,246 motor vehicles, of which 35 were hybrid buses and five were CNG buses. At the end of FY 2009, 13,545 new vehicles had been delivered, of which 8,958 had been exchanged for replacement vehicles. The chart below shows the breakout of vehicles by manufacturer that were ordered through the Recovery Act:

Manufacturer	# of Vehicles	Cost
Ford	7,925	$ 129,176,799
General Motors	6,348	105,501,924
Chrysler	2,933	52,892,867
Capital Coach Works	34	9,980,073
New Flyer, Inc.	5	2,272,450
Navistar, Inc.	1	164,940
Grand Total	**17,246**	**$ 299,989,053**

More information on how GSA is supporting the Recovery Act is available at *GSA.gov/recovery*.

Presidential Transition

In FY 2009, GSA successfully transitioned the incoming and outgoing presidents. The Presidential Transition Act of 1963, as amended authorized GSA to support the transition of the incoming and outgoing presidents. GSA also provided support to the Presidential Inaugural Committee. In FY 2009, GSA was appropriated $8.3 million for these activities. With these funds, GSA provided:

- Suitable office space in Washington, D.C., Chicago, IL and Dallas, TX, appropriately equipped with furniture, office machines, equipment and supplies;

GSA's Incoming Presidential Transition Support Team meeting with then President-elect, Barack Obama. For more information on GSA's presidential transition activities visit *GSA.gov/presidentialtransition.*

- Payment of the compensation for members of office staff designated by the president-elect or vice president-elect, as well as procurement of services of experts or consultants; and
- Payment of travel expenses, including leasing motor vehicles, information technology (IT) and telecommunications services, mail services and expenses for printing and other administrative services.

GSA is a Leader in Green Government

GSA provides superior workspace solutions to more than one million federal employees in over 8,600 owned and leased facilities across the nation. The Agency leverages its vast portfolio of government-controlled assets to lead the government in sustainable design and energy-efficient real property management. GSA's efforts to design, build and manage federal properties in a sustainable and environmentally-sensitive manner reduce the energy consumption of the federal government. This reduces operating costs and carbon emissions while meeting the missions and functional needs of tenant federal agencies.

- The Energy Independence and Security Act of 2007 required GSA to establish an Office of High Performance Federal Green Buildings, and mandated that new buildings and major renovations be designed so that fossil-fuel consumption is reduced.
- GSA is supporting the effort to introduce cloud computing to the federal government. For more information on federal cloud computing initiatives, and a video explaining cloud computing, visit *Apps.gov*.
- During FY 2009, GSA began a year-long study of wind and atmospheric conditions at the site of two future land ports of entry facilities to be constructed in the Rio Grande Valley on the U.S./Mexico border. If the results of the study are favorable, wind turbines located at these sites could provide enough power to eliminate the facility's dependence on fossil-produced energy.

To locate various environmental products and services, as well as research environmental laws, please visit GSA's Environmental Products Web site at *GSA.gov/enviro*.

Telework

GSA supports telework of federal employees as a government-wide initiative to reduce gridlock in major urban areas and to reduce gasoline consumption and the resulting carbon emissions. As of June 30, 2009, 46 percent of eligible GSA employees were reported to be teleworking on a regular basis (at least one day per week). This surpassed GSA's goal of having 40 percent of eligible employees teleworking by the end of the 2009 calendar year. For more information on GSA's telework initiatives visit *GSA.gov/telework*.

GSA Provides Access to Government Services and Information

During FY 2009, *USA.gov* introduced several new tools, one of which, the Government News Aggregator, allows citizens to receive consolidated news and information from across the federal government. This service lets citizens subscribe to *USA.gov* and receive fast-breaking news updates in industry standard feed readers.

GSA Employees Give Back to the Community

Employees from the Eugene, OR Property Management Office started the growing season with a creative way to support their community and the spirit of President Obama's "United We Serve" challenge. Instead of planting summer annuals, the employees turned 30 concrete security planters that surround the Eugene Federal Building into a lush community garden. They planted an assortment of fruits and vegetables, from columnar apples, that grow to about six feet tall and bear fruit after about a year, to zucchini. The produce grown at the federal building will be donated to local food pantries.

Cabinet secretaries and agency officials sported Hawaiian shirts while touring the Capital Area Food Bank to raise awareness for the summer food drive.

Additionally, GSA offices nationwide participated in the "Feds Feed Families" summer food drive. Through this effort, over 9,000 pounds of food were donated to local charities.

GSA Saves Money for the American Taxpayer

Here are some of the ways that GSA saved money for U.S. taxpayers during FY 2009:

- During FY 2009, GSA renegotiated its City Pair Program contracts. These contracts provide federal travelers the ability to book fully refundable airline tickets covering 3,750 domestic and 1,223 international city pairs. GSA estimates that the contract will secure $9.2 billion in air travel, at a cost of only $2.9 billion. More information on this program can be found at *GSA.gov/citypairs*.
- GSA's recycling efforts save money and benefit the environment. During FY 2009, GSA's National Capital Region alone recycled 8,630 tons of paper, cans and bottles, resulting in $171,641 that was returned to GSA's customer agencies.

GSA Supports Opportunities for the Disabled

GSA continues to encourage and facilitate participation by service-disabled, veteran-owned small business in contract competitions. In addition, GSA will continue as a partner and advocate of "Ability-One" as part of the Javits-Wagner-O'Day (JWOD) program, which promotes employment opportunities for physically and developmentally challenged individuals.

Established on June 30, 1949 under the Truman Administration, GSA's original mission was to dispose of war surplus goods, manage and store government records, handle emergency preparedness, and stockpile strategic supplies for wartime. GSA also regulated the sale of various office supplies to federal agencies...

JUNE 30, 1949

H.R. 4754

Eighty-first Congress of the United States of America
At the first Session

Begun and held at the City of Washington on Monday, the third day of January, one thousand nine hundred and forty-nine

AN ACT

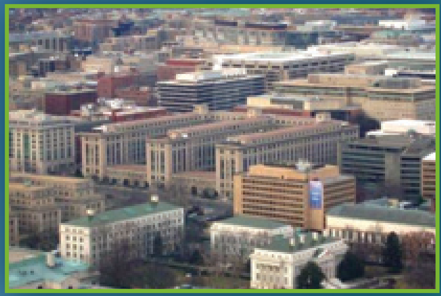
To simplify the procurement, utilization, and disposal of Government property, to reorganize certain agencies of the Government, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress Assembled,

SHORT TITLE

That this Act may be cited as the "Federal Property Administration Services Act of 1949."

President Harry Truman with GSA's first Administrator, Jess Larson



GSA's Central Office building, Washington, D.C.

East lobby staircase in GSA's Central Office building

Emergency Response and Recovery

1950s, GSA took on the major task of renovating the White House. ● 1954, GSA starts the first federal government motor pool. ● **1957**, GSA created the Federal Telecommunications System, a government-wide inter-city telephone system. ● **1960**s, GSA constructed many of the office buildings that now line Independence Avenue in Washington, D.C. as recommended by the Ad Hoc Committee on Federal Office Space for a new building program to address obsolete office buildings. ● **1974**, the Federal Buildings Fund became operational when GSA issued its first rent bills to federal agencies. ● **1984**, GSA introduced the federal government to the charge card, now used by over two million government employees today. ● **1987**, the first GSA child care center opens. The program has grown to 112 centers for more than 8,000 children nationwide. ● **1995**, GSA formed the Courthouse Management Group to manage the largest courthouse construction projects in 50 years, resulting in the renovation of federal courthouses across the country. ● **2000**, GSA launched *FirstGov.gov*. Now called *USA.gov* (or *GobiernoUSA.gov*) it provides citizens access to more than 180 million pages of online federal, state, local and tribal government information. ● **2006**, established the Office of Emergency Response and Recovery to better assist the country during national disasters. ● **2007**, the Federal Acquisition Service is created with the merger of the Federal Technology Service and Federal Supply Service. ● **2009**, as GSA enters the 2010s, GSA is managing its Recovery Act funding and continuing to serve the American taxpayer.

Model of the new Tuscaloosa Federal Building and Courthouse, Tuscaloosa, AL

GSA Fleet vehicle

Everett M. Dirksen Federal Building, Chicago, IL

Management's Discussion and Analysis

Organization

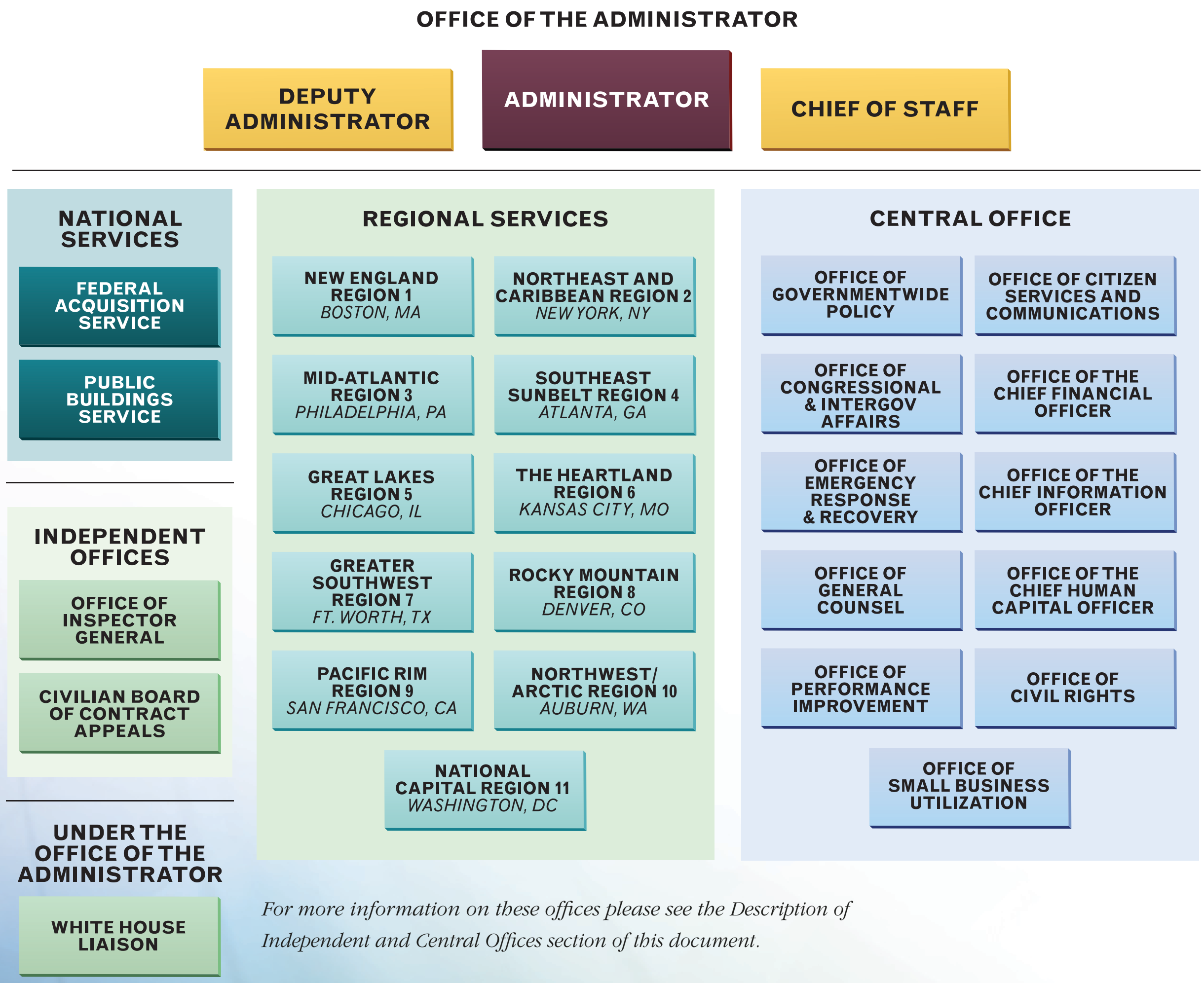
GSA delivers services directly to its federal customers through 11 regional offices and the central office in Washington, D.C. GSA is composed of the Federal Acquisition Service (FAS), the Public Buildings Service (PBS), 12 staff offices that support the Agency, the Office of Inspector General (OIG) and the Civilian Board of Contract Appeals.

Federal Acquisition Service

FAS is the lead organization for procurement of products and services (other than real property), for the federal government. FAS leverages the buying power of the government by consolidating federal agencies requirements for common goods and services. FAS provides a range of high-quality and flexible acquisition services that increase overall government effectiveness and efficiency. FAS business operations are organized into four business portfolios based on the product or service provided to customer agencies: Integrated Technology Services (ITS); Assisted Acquisition Services (AAS); General Supplies and Services (GSS); and Travel, Motor Vehicles and Card Services (TMVCS). The FAS portfolio structure enables GSA and FAS to provide best value services, products and solutions to its customers by aligning resources around key functions.

Public Buildings Service

PBS is the largest public real estate organization in the United States, providing facilities and workspace solutions to more than 60 federal agencies. PBS aims to provide a

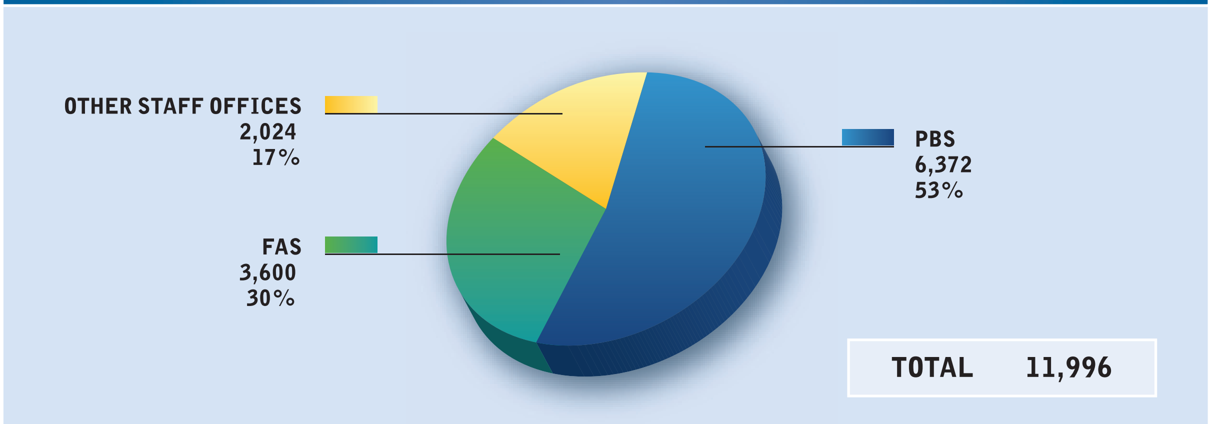


For more information on these offices please see the Description of Independent and Central Offices section of this document.

superior workplace for the federal worker and superior value for the U.S. taxpayer. Balancing these two objectives is PBS's greatest management challenge. PBS's activities fall into two broad areas. The first is space acquisition through both leases and construction. PBS translates general needs into specific requirements, marshals the necessary resources, and delivers the space necessary to meet the respective missions of its federal clients. The second area is management of space. This involves making decisions on maintenance, servicing tenants and ultimately, deciding when and how to dispose of a property at the end of its useful life.

In FY 2009, GSA had 11,996 full-time equivalent (FTE) employees, including 20 PBS and three OIG FTEs for the American Recovery and Reinvestment Act (Recovery Act) of 2009. Staffing levels have steadily declined since 2003, a trend which is largely driven by efficiency improvements. GSA has a continuing commitment to its federal customers and the U.S. taxpayers to provide services in the most cost-effective manner possible. GSA delivers on this promise by steadily improving organizational performance even as staffing levels decline.

FTE Breakdown by Organization



Key Performance Measures by Strategic Goals

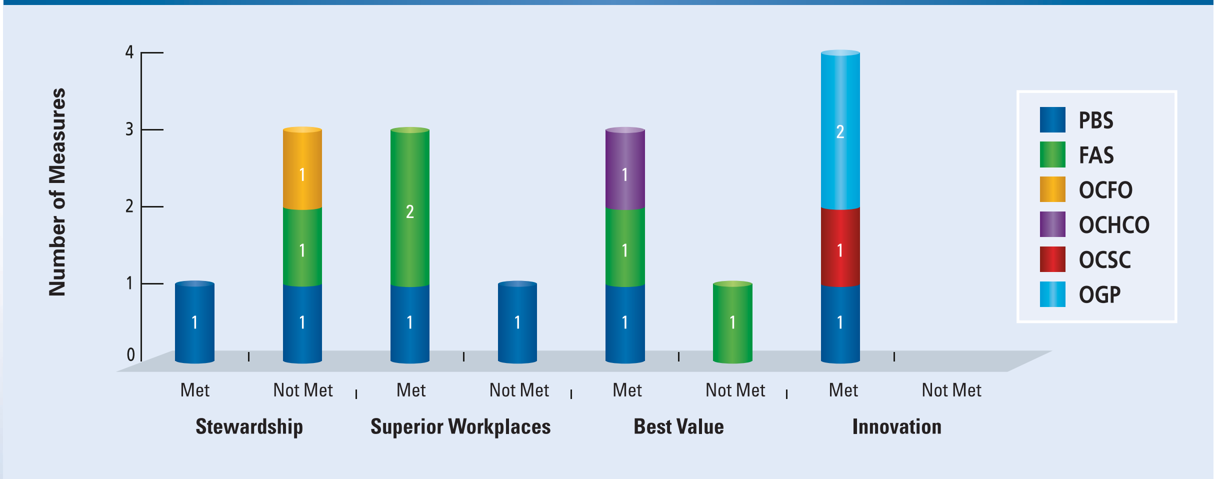
GSA is a performance-driven organization. GSA sets performance measures and goals to allocate resources, establish accountability and improve Agency operation. GSA performance goals and targets are aligned with overarching Agency strategic goals established in the FY 2007-2012 Strategic Plan: Stewardship, Superior Workplaces, Best Value and Innovation. Specific performance targets were established for each GSA performance measure in the FY 2009 Performance Plan submitted to Congress in the Agency's FY 2010 Congressional Justification.

The following discussion highlights some of GSA's accomplishments against the strategic goals. A table of Key Performance Measures for each strategic goal follows, along with an explanation of GSA's status against the target on each key measure. For complete information on GSA's performance goals and results refer to the FY 2011 Congressional Justification available in February 2010 at *GSA.gov/annualreport*.

The key measures presented in this section represent activities which are central to GSA's core responsibilities. Taken together, they fairly reflect the Agency's progress toward attainment of the four strategic goals presented in GSA's current strategic plan.

GSA achieved success for the majority of its key measures. Even among the five measures that were not met, one demonstrated substantial improvements over FY 2008 performance and another maintained FY 2008 levels. Among the successes were customer satisfaction for government-owned space and leasing, achieving cost benchmarks for cleaning and maintaining office and similarly serviced space. All the measures related to the Innovation Strategic Goal were accomplished, most notably the measure related to energy consumption which has been reduced 14.29 percent. A more detailed explanation of GSA's FY 2009 performance is provided on the following pages.

FY 2009 GSA Key Performance Measures Summary



STEWARDSHIP

Lead federal agencies in the economical and efficient management of federal assets by spearheading effective policy development and by the exemplary management of the buildings/workplaces, motor vehicles and personal property provided by GSA.

GSA has custody and control of an extensive portfolio of real estate holdings, and a significant inventory of motor vehicles and personal property. GSA manages, maintains and secures these assets in trust for the federal government and the U. S. taxpayer.

GSA exceeded the target in FY 2009 for **customer satisfaction with government owned space**. Major factors contributing to the high customer satisfaction level include the quality of owned space, proactive responses to previous tenant survey issues, and in-depth discussions and meetings with tenants. GSA is developing a training program so that its employees can make better use of survey results to ensure that GSA continues to provide the best workplace for client agencies.

GSA did not meet its target for **percent of new construction program that is registered for the LEED green building rating system in the same fiscal year that funding is authorized**. This measure captures both accomplishment and timeliness. All five projects eligible for inclusion in the LEED registration measure were registered for LEED. However, one project was not registered until the second week of FY 2010, after its scheduled deadline. This caused overall performance to slip below the targeted level.

A major restructuring of the U.S. automotive industry in FY 2009 negatively impacted the **percent discount from invoice price** that GSA realizes in its vehicle acquisitions. GSA typically negotiates prices for motor vehicles well in advance of sales; as a result, the actual discount realized in any year is subject to economic conditions outside of GSA's control. In FY 2009, major automobile manufacturers offered considerable incentives to retail consumers that were not available when GSA negotiated its prices. Retail consumer discounts reduced manufacturers' invoice prices and therefore reduced the percentage discount on motor vehicles available for sales to federal motor vehicle fleets. Such sales would otherwise realize a substantial discount during normal years.

This year, GSA missed its target for **interest penalties paid.** This measure reflects GSA's ability to promptly pay its bills. In FY 2009, for the first time, the measure included interest paid on payments for leased space. Although GSA missed the target, late payments made up only 0.01 percent of all disbursements made in FY 2009. GSA paid approximately $116 in interest per million dollars disbursed. Several factors affected this measure in FY 2009. GSA transitioned new personnel into the processing of incoming invoices, upgrades to GSA's core accounting system caused a short-term delay in processing rent invoices, and GSA processed a large number of payments for old tax accruals, which carried a large balance of interest. Through a Lean Six Sigma effort, GSA is promoting electronic invoicing from its vendors. This effort, and the absence of the one-time factors which impacted FY 2009 results, should improve performance in FY 2010.

STRATEGIC GOAL/ SERVICE OR OFFICE	MEASURES	FY 2009 TARGET	FY 2009 ACTUAL	RESULT
PBS – Asset Management	Customer satisfaction with government-owned space	80.0%	84.4%	Met
PBS – New Construction	Percent of New Construction program that is registered for LEED	90.0%	80.0%	Not Met
FAS – TMVCS	Percent discount from invoice price (Vehicle Acquisition)	28.9%	26.4%	Not Met
CFO	Interest penalties paid	$400,000	$1.9M	Not Met

SUPERIOR WORKPLACES

Deliver and maintain productive workplaces consisting of office space, furnishings, technology, supplies and related services.

GSA provides owned or leased space for government facilities such as office space, warehouses and laboratories. GSA constructs new special purpose space, including courthouses for the federal judiciary and land ports of entry. GSA met its FY 2009 target for **satisfied tenant customer satisfaction rating (4 and 5 responses) in leased space surveyed**. Major factors contributing to high customer satisfaction include the quality of leased space, proactive responses to previous tenant survey issues, and in-depth discussions and meetings with tenants. GSA is exploring the implementation of a nationwide system for creating and tracking work plans to address survey results, improving response to customer concerns, and sharing best practices across all regions.

GSA missed the target on its **construction projects on schedule** measure. Of 29 active new construction projects, 25 of them were on schedule in FY 2009. The measure results are computed using the "earned value" concept to determine how projects are performing. This analysis compares the planned schedule of spending (work in place) with the actual value of work in place on the project. One project was delayed by major late-stage client changes, while two other projects progressed according to plan but were delayed in processing transactions that impact cost and schedule milestones.

The **percentage of GSA Fleet leasing rates below commercial rates on the GSA Vehicle Leasing Schedule** target was exceeded this fiscal year. Actual performance in FY 2009 demonstrates that GSA Fleet remains competitive by offering affordable vehicles lease rates in comparison to other sources of supply. GSA Fleet has closely managed its costs for years, operating a well maintained fleet of vehicles averaging three years of age.

In FY 2009, GSA met its target for reducing the **blended mark-up** in Global Supply operations. Blended mark-up is the fee that is applied to the cost of goods provided to customers; this fee recovers program operating costs. GSA Supply Operations has instituted business transformational efforts, and shifted to lower-cost methods of supply, which directly benefit GSA customers through lower prices.

STRATEGIC GOAL/ SERVICE OR OFFICE	MEASURES	FY 2009 TARGET	FY 2009 ACTUAL	RESULT
PBS – Leasing	Satisfied tenant customer satisfaction rating (4 and 5 responses) in leased space surveyed	78.0%	78.9%	Met
PBS – New Construction	Construction projects on schedule	89.0%	88.4%	Not Met
FAS – TMVCS	Percentage of GSA Fleet leasing rates below commercial rates on the GSA Vehicle Leasing Schedule	29.8%	48.8%	Met
FAS – GSS	Blended mark-up (Global Supply)	29.5%	29.2%	Met

BEST VALUE

Develop and deliver timely, accurate, and cost-effective acquisition services and business solutions.

As the federal government's primary civilian acquisition organization, GSA manages widely diverse offerings and many different methods for acquiring those offerings.

GSA exceeded its target for **percent within the private sector benchmarks for cleaning and maintaining office and similarly serviced space**. Maintaining operating costs within private sector benchmarks demonstrates that GSA manages government owned assets as efficiently as the private sector.

Although GSA did not meet its target for **customer satisfaction with Assisted Acquisition Services (AAS)**, survey results held steady from FY 2008 levels while GSA sharply lowered costs in this area. A high-level restructuring of GSA's AAS and the 40 percent reduction in full-time equivalent (FTE) also led GSA to re-evaluate the business model. Through this re-evaluation, and other continuous process improvement initiatives, GSA instituted changes to standardize and streamline several processes nationwide to make the customer experience more consistent. This will help to improve customer satisfaction in future fiscal years.

Cost avoidance/savings achieved by the Integrated Technology Services (ITS) portfolio programs surpassed the FY 2009 target by more than $37 million. GSA's ITS portfolio realized better than expected program performance in FY 2009 primarily because of increased sales volume, which increased the overall total savings realized by GSA's customers.

Through the "Lean Hiring" process, GSA has significantly reduced the **number of days to fill a vacancy**, or hire a new employee. In FY 2009, this effort allowed GSA to review employment policies for staffing and recruitment and to eliminate policies that impede efficient hiring. This will allow GSA to develop additional policies that will further expedite hiring.

STRATEGIC GOAL/ SERVICE OR OFFICE	MEASURES	FY 2009 TARGET	FY 2009 ACTUAL	RESULT
PBS – Asset Management	Percent within the private sector benchmarks for cleaning and maintaining office and similarly serviced space	+/-5.0%	0.9%	Met
FAS – AAS	American Customer Satisfaction Index (ACSI survey) – Assisted Acquisition Services	74.5%	71.0%	Not Met
FAS – ITS	Cost avoidance/savings achieved by ITS Portfolio programs	$824M	$876M	Met
OCHCO	Number of days to fill a vacancy	45	27	Met

Innovation

Develop new and better ways of conducting business that result in more productive and effective federal policies and administrative operations.

GSA demonstrates innovation daily, through its leadership in green government, its commitment to providing best-in-class information and services to citizens, and by continuously improving government-wide policies for property acquisition and management.

In FY 2009, GSA reduced energy consumption by 14.29 percent over the FY 2003 baseline. This figure includes credits for on-site generation of renewable technology credits received for combined heat and power plant operations, and purchased renewable energy credits from offsite renewable energy generation sources.

The measure of **citizen touchpoints** counts the number of times GSA provides information to citizens through Web sites, telephone contacts, e-mail, Web chats and publications distributed. This is an important measure of GSA's efforts to improve transparency in government. GSA achieved 245 million **citizen touchpoints** in FY 2009, exceeding its target by 12 percent. Contributing to this performance improvement was a nine percent increase in visits to *USA.gov* and a six percent increase in visits to other Web sites. E-mail responses increased by 6.5 percent, while Web chats with citizens increased by 45 percent. Subscriber e-mail contacts jumped an impressive 83 percent. New task orders under the USA Contact support contract enabled a rise from one million to 3.9 million in contacts through this channel. GSA also realized a 14 percent increase in the usage of USA Search services provided to other agencies.

GSA's Office of Governmentwide Policy (OGP) uses measures to ensure that its policies are "used and useful," and that they produce the desired outcome improvements. Under OGP's Policy Portfolio Performance System (3PS), the **extent to which OGP policy initiatives achieved improvement targets** gauges OGP's progress across its diverse field of policy responsibilities (real property, technology, personal property, etc.). In FY 2009, each of the six initiatives in GSA's policy portfolio selected at the start of the year met or exceeded its designated targets.

The **percentage of key policy stakeholders and agency users who rate OGP policy initiatives effective** also exceeded its FY 2009 target. GSA's annual effectiveness survey was distributed to 45 executive agencies, bureaus and commissions. Three independent standards bodies were asked to assist in the survey through coordinating executive branch standards with industry standards. With a score of 81 percent, for the third consecutive year GSA has increased its effectiveness rating. Overall, key policy stakeholders were highly satisfied.

STRATEGIC GOAL/ SERVICE OR OFFICE	MEASURES	FY 2009 TARGET	FY 2009 ACTUAL	RESULT
PBS – Asset Management	Percent reduction in energy consumption over the FY 2003 baseline	12.00%	14.29%	Met
OCSC	Citizen touchpoints	218M	245M	Met
OGP	Extent to which OGP policy initiatives achieved improvement targets	92%	100%	Met
OGP	Percentage of key policy stakeholders and agency users who rate OGP policy initiatives effective	63%	81%	Met

Letter from the Chief Financial Officer

In FY 2009, the U.S. General Services Administration (GSA) continued to make significant progress across its financial management program. The Agency again obtained an unqualified "clean" opinion on our FY 2009 consolidating financial statements and clean opinions on our Statement on Auditing Standards (SAS) 70 reports.

Kathleen Turco

FY 2009 was a year of challenges and opportunities. GSA began FY 2009 with a material weakness related to systems and budgetary controls, and a Federal Financial Management Improvement Act (FFMIA) non-compliance issue due to an excessive number of adjustments to the financial statements. Thanks to extensive efforts across GSA's financial and operational communities, the significant deficiency is no longer material and the FFMIA non-compliance was eliminated. Throughout the year, the Agency maintained positive balances in our revolving funds, demonstrated sound financial planning and stewardship, met the challenges associated with the stewardship of $5.9 billion American Recovery and Reinvestment Act (Recovery Act) of 2009 funds, and improved the timeliness and transparency of our financial reporting.

Despite this success, challenges and opportunities remain, particularly in improving the integration of the business and financial systems, and strengthening information technology (IT) controls. We will continue to modernize our financial systems, and are on track to implement a greatly improved billing and receiving process over the next three years. GSA is integrating risk management into the Agency's decision-making process to better address the varied challenges facing our programs, in particular those related to the Recovery Act. We are also working to continually improve the efficiency and effectiveness of our operations, policies and procedures, increasing and improving our use of tools such as Lean Six Sigma, workload planning and analysis, and managerial cost accounting.

The FY 2009 Agency Financial Report reflects GSA's Agency-wide commitment to transparency, accountability and financial integrity throughout the financial management services that are provided to over 50 internal and external customers. I am confident that sense of commitment will continue to drive improvements throughout the GSA financial management program.

Kathleen M. Turco
Chief Financial Officer
November 12, 2009

Financial Statements Analysis and Summary

The following analysis and summary is designed to help readers understand GSA's FY 2009 financial results, position and condition. This presents management's understanding of the amounts shown in the financial statements, particularly those items that were especially relevant to important management issues during the year. Every effort has been made to present this information in a user friendly format and language. The independent accounting firm KPMG LLP expressed an unqualified "clean" opinion on GSA's FY 2009 financial statements. Agency management is accountable for the integrity of the financial information presented in the financial statements.

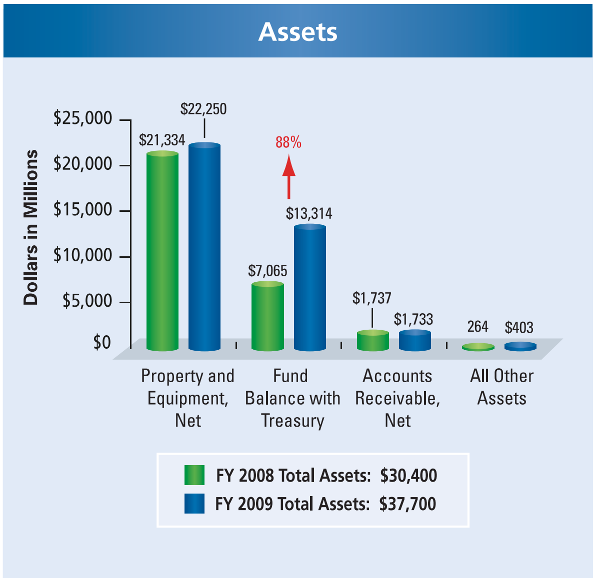
KEY FINANCIAL TERMS SIMPLIFIED	
Assets	Things of value
Property and Equipment	Category of assets, that for GSA generally includes land and buildings, motor vehicles, furniture, office equipment, computers, etc.
Fund Balance with Treasury	Category of assets, representing the balance of funds held by the U.S. Department of the Treasury for GSA's use. In most sentences a reader can consider this like GSA's "Checking Account Balance."
Accounts Receivable	Category of assets, representing amounts owed to GSA. Generally, Accounts Receivable at GSA are owed to the Agency from other federal agencies (GSA's customers).
Liabilities	Amounts owed by GSA
Accounts Payable	Category of liabilities, representing amounts GSA owes to vendors but has not yet paid. These are generally due to be paid quickly.
Intragovern-mental Debt	Category of liabilities, representing amounts GSA owes to other federal entities. The term Debt indicates that these are borrowings made by GSA, generally these represent amounts GSA borrowed to finance the construction or purchase of a facility.
Net Revenue (Cost)	Amount remaining when expenses (costs) are subtracted from revenues.
Revenues	Amounts GSA has earned. Revenues increase the equity (or value) of GSA. Revenue is recorded as soon as GSA has performed the work for its customer (regardless of whether the customer has paid GSA or not).
Expenses	Amounts GSA used. Expenses decrease the equity (or value) of GSA. Expenses are recorded as soon as GSA incurs them (regardless of whether GSA has paid its customer or not).
Obligations	Budgetary term for the amounts that GSA has contractually assigned to a vendor.
Outlays	Budgetary term for the amounts GSA has actually spent.
Offsetting Collections	Budgetary term for the amounts GSA has collected from customers. They are considered "offsetting" collections because in GSA's budget, these collections "offset" the amounts GSA has spent with vendors (outlays).
Fiscal Year	For federal agencies like GSA, the fiscal year begins October 1st and ends September 30th. For example, FY 2009 covers October 1, 2008 to September 30, 2009.

CONSOLIDATED FINANCIAL RESULTS

GSA realized $18.7 billion in revenues in FY 2009. If GSA were a public company, its revenues would place it at 135 on the Fortune 500, ahead of Xerox and Nike, among others. The majority of GSA's resources come from reimbursements from other federal agencies for goods and services it provides.

GSA Assets

Assets are things of value that are owned by an organization. GSA's assets are presented on the Consolidating Balance Sheets, and summarized in the chart to the right. Generally, GSA's assets include federal buildings, motor vehicles, and office equipment (Property and Equipment), cash balances which are held in the U.S. Treasury (Fund Balance with Treasury), or debts owed to GSA from other federal agencies, primarily for sales transactions or rent that was not collected at the end of FY 2009 (Accounts Receivable).



The largest percentage change in assets occurred in the Fund Balance with Treasury, which increased by 88 percent. The American Recovery and Reinvestment Act (Recovery Act) of 2009 provided GSA with appropriations of $5.9 billion, primarily for construction and acquisition of federal property, long-term construction projects. The large end-of-year Fund Balance with Treasury reflects projects that were fully funded up front, but will take several years for GSA to fully pay out. Also due to the Recovery Act, around 20 percent of GSA's resources came from appropriations in FY 2009, compared to a normal year, where only about 2.5 percent of GSA's total resources would come from annual appropriations.

Property and Equipment, Net, the largest category of GSA's assets, increased by $916 million, or 4.3 percent. This category of assets is presented as a "net" amount, meaning that the value of the asset is shown with its costs (expenses like depreciation) already subtracted out. The $916 million increase in Property and Equipment, Net is caused by acquisitions of $2,814 million, minus depreciation of $1,618 million and $280 million in property disposals and write-offs. Of the $2,814 million in acquisitions, $1,875 million were from construction, modernization and alterations to buildings, with another $806 million from vehicle acquisitions.

GSA Liabilities

Liabilities are amounts owed by GSA. GSA's liabilities are shown on the Consolidating Balance Sheets and summarized in the chart to the right. GSA's liabilities are primarily amounts owed to commercial vendors but not yet paid (Accounts Payable), and amounts GSA owes to other federal entities (Intragovernmental Debt). From FY 2008 to FY 2009, GSA's accounts payable balance increased by $211 million, primarily due to increases in accounts payable in the Federal Buildings Fund (FBF) of approximately $187 million. Primarily, this increase comes from accounts payable in FBF's rental of space program which increased by $68 million due to general increases in rental rates charged to GSA. Additionally, the Reimbursable Work Authorization (RWA) program accounts payable increased by $65 million due to growth in the RWA program.

Financial Results by Major Fund – Federal Buildings Fund

FBF is the primary fund of GSA's Public Buildings Service (PBS). PBS provides superior workplaces for federal agencies and their employees at a superior value to the U.S. taxpayer. As the largest public real estate organization in the nation, PBS owns or leases 8,600 properties, maintains an inventory of more than 354 million square feet of workspace for 1.1 million federal employees, and preserves over 400 historic properties. FBF is primarily supported by rent paid to GSA from other federal entities. In fact during FY 2009, excluding the $5.6 billion in funds received for the Recovery Act, only four percent of FBF's $15.4 billion budget was appropriated. More information on PBS is available at *GSA.gov/pbs*.

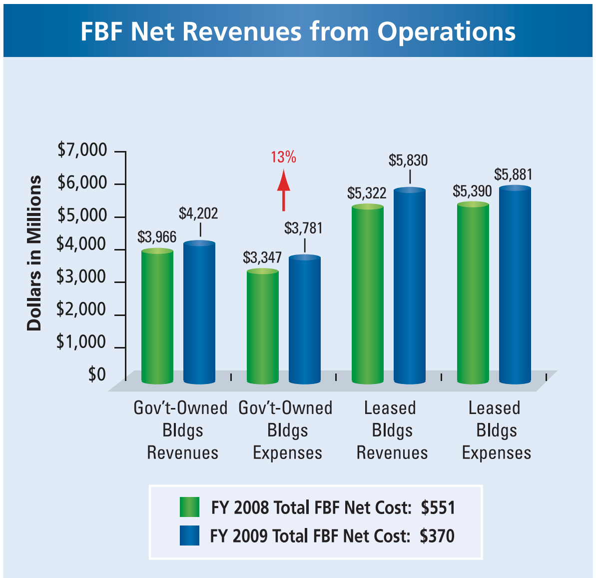
During FY 2009, FBF brought in over $10 billion in revenues. Over half of total revenues were from just five customers, shown in the "FBF's Top 5 Customers" table.

FBF's Top 5 Customers	Percentage of Total Revenues
U.S. Department of Justice	16%
U.S. Department of Homeland Security	15%
Federal Judiciary	11%
U.S. Department of the Treasury	8%
U.S. Social Security Administration	7%

FBF Net Revenues from Operations

FBF Net Revenues from Operations represent the amounts remaining after the costs of operating GSA's owned and leased buildings are subtracted from all revenues earned in a year. Net Revenues from Operations are used to invest in major repairs and alterations to federal buildings, and to offset some of the costs of constructing new federal buildings.

Overall, Net Revenues decreased by 33 percent, from $551 million in FY 2008 to $370 million in FY 2009. FBF's decrease in Net Revenues is driven primarily by increased costs of operating GSA-owned federal buildings.



Revenues and expenses in FBF are primarily from building operations and rent. FBF also operates a RWA program, which provides GSA's customer agencies with alterations and improvements in GSA space, above what is specified in the base rental agreement. Revenues and expenses in the RWA program were up almost $400 million, or 39 percent from FY 2008 levels. This increase in RWA activity increases revenue and expenses of both the owned and leased programs.

From FY 2008 to FY 2009, expenses in FBF's government-owned buildings operations increased by 13 percent. This increase in expenses is due to approximately a $233 million increase in RWA projects, which affect both revenues and expenses equally. The additional increase in owned building expenses comes from building operations expenses, primarily from an increase in building repairs of $84.6 million, and an increase in maintenance and operations of $32.3 million, and depreciation of $85.8 million.

In FBF's Leased Buildings portfolio, both revenues and expenses increased by almost 10 percent, in excess of $490 million. Approximately $300 million of this increase is due to general inflation in leasing operations, and from increases in its inventory of rentable leased space by 6.5 million square feet. Additionally, increases in the RWA program affected the leased program also, adding approximately $192 million in both revenues and expenses.

FBF Obligations and Outlays

In federal budgeting, obligations are the full cost of legal liabilities of the government. In FBF, obligations are primarily the cost of contracts awarded to commercial vendors for the construction of new federal buildings; for repairs, cleaning and other maintenance of GSA-owned federal buildings; and lease and related payments to commercial landlords for space leased by GSA for federal agencies.

FBF obligations increased by approximately $1.9 billion between FY 2008 and FY 2009. Approximately $1.5 billion of this increase is directly attributable to the orders GSA has placed because of the Recovery Act. The remaining increase in FBF obligations is primarily due to increases in lease payments and operating costs of leased space. FBF obligations for leased space also increased in FY 2009 as new leases are added in preparation for the 2010 Census.

FBF OBLIGATIONS AND OUTLAYS *(Dollars in Millions)*	FY 2009	FY 2008	Change ($)	Change (%)
Obligations Incurred	$ 11,635	$ 9,735	$ 1,900	19.52%
Gross Outlays	$ 10,183	$ 9,319	$ 864	9.27%
Offsetting Collections	$(9,935)	$(9,241)	$ (694)	7.51%

Outlays are payments made by the government once goods and services are received at an acceptable level of quality and completeness. Outlays generally represent work items completed by or on behalf of GSA. Offsetting collections is a budgetary term that represents revenues collected from other federal agencies. Offsetting collections are so named because they "offset" expenditures made by GSA on behalf of other federal agencies. In FY 2009, both outlays and offsetting collections increased. These increases are the result of increased obligations, and will continue at a higher-than-average rate as work items are completed and delivered to GSA.

How PBS Benefits the Public

- PBS ensures that 1,535 federally owned buildings adhere to energy conservation and sustainable design mainstream.
- In FY 2009, PBS operated buildings at just 0.9 percent above private sector benchmarks for cleaning, maintenance and utility costs.
- In FY 2009, PBS had a 2.6 percent vacancy rate, well below the industry average of 15.5 percent.
- PBS preserves over 400 historical properties; 301 of which are historical buildings that are listed on the National Register, with 107 of those designated as National Historic Landmarks.

Financial Results by Major Fund – Acquisition Services Fund

The Acquisition Services Fund (ASF) is the primary fund of GSA's Federal Acquisition Service (FAS). FAS acquires goods and services from commercial vendors on behalf of other federal agencies. FAS consolidates common requirements from multiple federal agencies and uses its negotiating expertise to acquire products and services at better prices and terms than individual agencies could obtain individually. ASF is a revolving fund which operates on the revenue generated from its business rather than appropriations received from Congress. More information on FAS is available at *GSA.gov/fas*.

During FY 2009, ASF realized over $9.2 billion in revenues. Approximately 59 percent of these revenues were from the five agencies shown in the "ASF's Top 5 Customers" table.

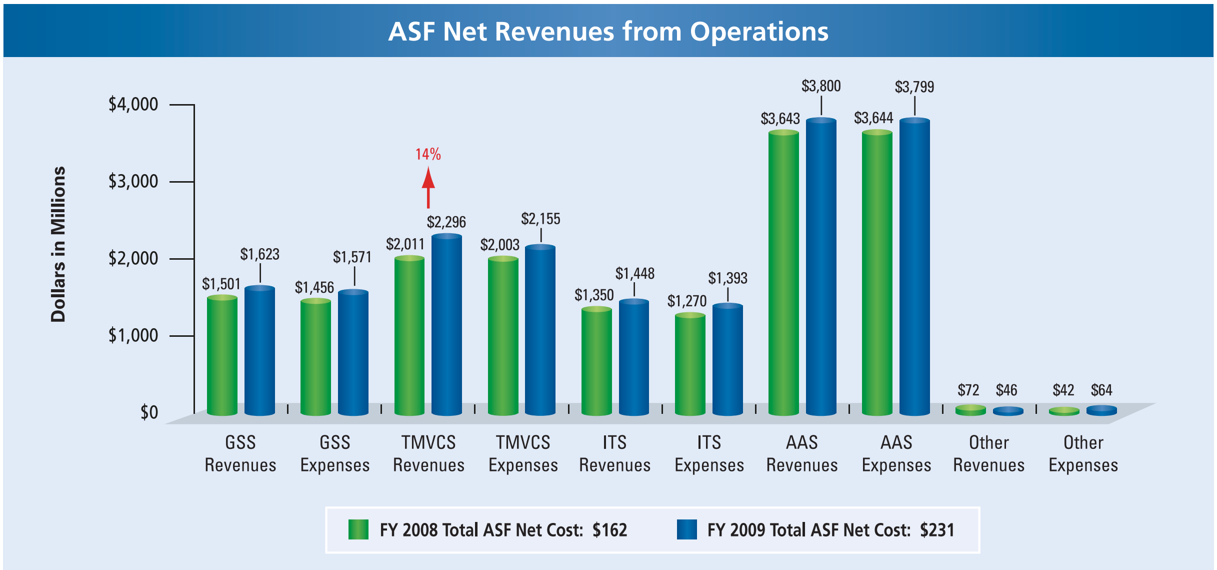
ASF's Top 5 Customers	Percentage of Total Revenues
U.S. Army	25%
U.S. Air Force	12%
U.S. Navy	8%
U.S. Department of Defense	8%
U.S. Department of Homeland Security	6%

ASF Net Revenues from Operations

ASF Net Revenues from Operations represent the amounts remaining after the costs of goods and services sold and all FAS operating expenses are subtracted from all revenues earned during the year. Net Revenues from Operations are used to invest in information systems and other investments necessary to improve FAS's responsiveness to its customers, and to comply with new regulatory and statutory requirements.

ASF's overall Net Revenues increased by 43 percent from $162 million in FY 2008 to $231 million in FY 2009. This increase was mostly due to improved results in the Travel, Motor Vehicles and Card Services (TMVCS) portfolio. TMVCS revenues have increased by $285 million, primarily as a result of the Recovery Act funding which placed approximately $300 million in automotive special orders from TMVCS. GSA's own Fleet program, managed by TMVCS, experienced a $31 million increase in revenues, partially as a result of fuel surcharges added in 2008 that carried into 2009. Year to date, petroleum expenses have decreased by 36 percent, from $454 million in FY 2008 to $290 million in FY 2009, as fuel prices returned to lower levels from the peak experienced in FY 2008.

The other major portfolios of ASF also experienced solid growth during FY 2009, with revenues and expenses increasing across the board, from over four percent in the Assisted Acquisition Services (AAS) portfolio, to approximately eight percent in the General Supplies and Services (GSS) portfolio. The Integrated Technology Services (ITS) portfolio revenues similarly grew over seven percent, while expenses in ITS increased by almost 10 percent. The increase in ITS expenses is primarily due to higher costs associated with the transition to the Networx contracts for long distance telecommunications and related services.



ASF Obligations and Outlays

ASF OBLIGATIONS AND OUTLAYS *(Dollars in Millions)*	FY 2009	FY 2008	Change ($)	Change (%)
Obligations Incurred	$ 10,740	$ 9,935	$ 805	8.10%
Gross Outlays	$ 10,008	$ 9,427	$ 581	6.16%
Offsetting Collections	$ (10,259)	$(9,366)	$ (893)	9.53%

In ASF, Obligations and Outlays are primarily driven by contracts awarded to commercial vendors to provide goods and services to federal agencies, or to FAS to receive and distribute to federal agencies. From FY 2008 to FY 2009, Obligations and Outlays in ASF both increased, but at rates that management believes are normal, and caused by generally increasing business volume, and the impact of additional business volume created in support of the Recovery Act activities.

How FAS Benefits the Public

- In FY 2009, almost 58 percent of Supply and 33.8 percent of Multiple Award Schedule (MAS) business volume was allocated to socioeconomic-based businesses. Total GSS business volume allocated to small businesses in FY 2009 was $8.04 billion.
- Fleet has 214,813 vehicles that are leased to other federal agencies. As of FY 2009, agencies receive a leasing rate that is 48.8 percent below the commercial rates.
- FAS provides value-added and customized acquisition, project management and financial management services for IT-related products and services and professional services for federal agencies worldwide.

Financial Results by Major Fund – Other Funds

GSA's Principal Financial Statements report on the financial activity and position of FBF, ASF and "Other Funds." Other Funds includes many funds which, when combined, are immaterial in relation to GSA's major business line funds (FBF and ASF). For more information on the funds that make up the Other Funds column, see Footnote 1 in GSA's Notes to the Financial Statements. There were two events of note during FY 2009 which affected the Other Funds category of GSA's financial statements.

1. The Recovery Act appropriated $300 million to GSA for the Energy-Efficient Motor Vehicle Fleet Procurement Fund. This Recovery Act appropriation caused a major increase in appropriations to Other Funds, from $242 million in FY 2008 to $559 million in FY 2009. Additionally, the vehicles purchased with this funding greatly increased the Other Assets line item in the Other Funds category of GSA's Consolidating Balance Sheets, from $1 million to $108 million. At year end, this amount represents the vehicles on GSA's books until GSA transfers them to another agency. For more information on how GSA accounts for these transactions, see Footnote 17 in GSA's Notes to the Financial Statements.

2. During FY 2009, GSA received $109 million from a settlement agreement related to contract fraud by a MAS vendor. This settlement causes significant increases in the Other Funds column of GSA's Consolidating Statements of Changes in Net Position, under Non-Exchange Revenue, and in the Offsetting Receipts line item of GSA's Combining Statements of Budgetary Resources. This money did not stay with GSA, but was returned to the U.S. Treasury in FY 2009.

LIMITATIONS OF FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles (GAAP) for federal entities and the format prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

Management Assurances

Statement of Assurance

The management of the U.S. General Services Administration (GSA) recognizes and fully embraces our responsibility to establish and maintain effective internal controls and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). Management assures the effectiveness of GSA's internal controls to support effective and efficient programmatic operations, reliable reporting, and compliance with all applicable laws and regulations. Throughout the year, management conducts extensive evaluation and review of its operations. Based on the results of this effort, GSA can provide reasonable assurance that the objectives of FMFIA are being met, and that no material weaknesses exist in the design or operation of the internal controls as of September 30, 2009.

In addition, GSA conducted an assessment of the effectiveness of internal controls over financial reporting in accordance with Appendix A, Office of Management and Budget's (OMB) Circular A-123, *Management's Responsibility for Internal Control.* Based on the results of this assessment, GSA can provide reasonable assurance that its internal controls over financial reporting, as of June 30, 2009, were operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting. The assessment did find that a Federal Financial Management Improvement Act (FFMIA) non-compliance had existed in accounting adjustments being entered at a summary level, resulting in a FFMIA non-compliance with recording the U.S. Standard General Ledger (USSGL) at the transaction level. Subsequent testing through September 30, 2009 identified the remediation of the FFMIA non-compliance due to a successful Lean Six Sigma project implementation. GSA's financial management systems were in substantial compliance with the requirements of FFMIA as of September 30, 2009.

This system of internal controls is also being used to support the American Recovery and Reinvestment Act (Recovery Act) of 2009 awards made at GSA. Relying on OMB guidance, GSA performed an assessment of risks related to the Recovery Act. This assessment, combined with management's assessment of internal controls, enables GSA to provide reasonable assurance that the key accountability objectives of the Recovery Act are being met and that significant risks to meeting these Recovery Act accountability objectives are adequately mitigated.

Paul F. Prouty
Acting Administrator
November 12, 2009

GSA's Management And Internal Control Program

FMFIA requires agencies to establish internal control and financial systems that provide reasonable assurance that the three objectives of internal control are achieved:

- Effectiveness and efficiency of operations;
- Compliance with applicable laws and regulations; and
- Reliability of financial reporting.

FMFIA requires that the head of the agency, based on evaluation, provide an annual Statement of Assurance on whether the agency has met these requirements. OMB Circular A-123, *Management's Responsibility for Internal Control,* implements FMFIA and defines management's responsibility for internal controls in federal agencies. FMFIA also requires agencies to establish internal controls over their programs, financial reporting and financial management systems. To help meet the requirements of FMFIA, GSA conducts internal control reviews of Agency programs to ensure that internal controls are identified, documented, tested and evaluated, and that weaknesses are corrected in a timely and effective manner. Management also has in place an effective audit follow-up system to ensure that audit findings are responded to in a timely and effective manner, and corrective action plans are implemented. In addition to these activities, GSA managers provide assurance on the effectiveness of the internal controls over operations, management systems and financial reporting for FY 2009 with consideration to all internal and external reviews of the Agency.

In FY 2009, GSA continued to strengthen management practices and internal controls to assure the integrity of its programs, operations, and business and financial management systems. GSA has fully embraced as the foundation of effective management operations and continues to meet the requirements of:

- OMB Circular A-123, *Management's Responsibility for Internal Control;*
- The Office of Federal Procurement Policy's (OFPP) Memorandum titled, "Conducting Acquisition Assessments under OMB Circular A-123," dated May 21, 2008;
- FMFIA;
- OMB Circular A-127, *Financial Management Systems,* including related validation of systems certification and accreditation (C&A) reviews, Federal Information Security Management Act (FISMA) compliance activities and Statement on Auditing Standards (SAS) 70 reviews.
- FFMIA as the foundation of effective management operations; and
- OFPP Guidance on Acquisition Assessments.

During this fiscal year, GSA management emphasized the need to coordinate and leverage reviews and evaluations to reduce redundancy. This coordinated and risk-based effort achieved benefits by leveraging existing core competencies, reducing duplicative reviews, increasing compliance with all applicable laws and regulations, and reducing the internal control review burden on all GSA programs and operations.

GSA continued to make significant strides in addressing its information technology (IT) significant deficiency, "Strengthen Segregation of Duties, Account Management, and Activity Monitoring Controls." Additional actions will be taken to work toward remediation of this condition during FY 2010. Improvements were also achieved with respect to conducting system control reviews, improving financial systems integration for financial management systems and strengthening compliance with FISMA requirements.

For example, beginning in FY 2009, the Procurement Management Review (PMR) team collaborated with the Office of the Chief Financial Officer's (OCFO) A-123 Internal Control Review team to simultaneously conduct the financial and acquisition reviews in several regions. A portion of PMR review efforts assessed the effectiveness of the specific control deficiencies identified by GSA's external auditors, and PMR reviews evolved from comprehensive compliance-based reviews to risk-based reviews of procurement controls. By analyzing activities from an acquisition and financial perspective, GSA addressed control issues that involved both financial and acquisition functions. As these reviews are completed, all review results are presented to management, through the GSA Management Control and Oversight Committee and the Senior Assessment Team, as the basis for determining management assurances. Deficiencies identified through the PMR reviews are tracked through a database application and monitored for timely resolution.

GSA has made significant progress in validating balances in its budgetary accounts. Although vast improvement has been made in resolving unfilled customer orders and unliquidated obligations, incidences of invalid amounts in the Public Buildings Service (PBS) still remain. Improvement of these processes continues, and management is monitoring corrective actions. Accordingly, GSA can provide reasonable assurance that its internal controls over financial reporting are operating effectively, and no material weakness exists in the design or operation of internal control over financial reporting.

GSA was authorized $5.9 billion from the Recovery Act. Due to increased Agency spending, GSA has developed and implemented risk assessments and internal controls methodologies to ensure Recovery Act funds are awarded and distributed in a prompt, fair and reasonable manner. Moreover, GSA is ensuring that use of all Recovery Act funds is transparent to the public, and public benefits of these funds are reported clearly, accurately and in a timely manner.

Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit

Audit Opinion: **Unqualified**

Restatement: **No**

MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE
Financial Management Systems, Internal Controls and Financial Reporting	1	0	1	0	0
Total Material Weaknesses	1	0	1	0	0

Summary of Management Assurances

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)						
Statement of Assurance:	**Unqualified**					
MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Management Systems, Internal Controls and Financial Reporting	1	0	1	0	0	0
Total Material Weaknesses	**1**	**0**	**1**	**0**	**0**	**0**
EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance:	**Unqualified**					
MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Management Systems, Internal Controls and Financial Reporting	1	0	1	0	0	0
Total Material Weaknesses	**1**	**0**	**1**	**0**	**0**	**0**
CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)						
Statement of Assurance:	**Systems substantially conform to financial management system requirements**					
NON-CONFORMANCES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	REASSESSED	ENDING BALANCE
Financial Management Systems, Internal Controls and Financial Reporting	1	0	1	0	0	0
Total Non-Conformances	**1**	**0**	**1**	**0**	**0**	**0**

COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
	AGENCY	AUDITOR
Overall Substantial Compliance	**Yes**	**Yes**
1. System Requirements	**Yes**	
2. Accounting Standards	**Yes**	
3. USSGL at Transaction Level	**Yes**	

Summary of Inspector General's Assessment of GSA's Major Management Challenges

	ISSUE
ACQUISITION PROGRAMS	Two issues have been identified within GSA's acquisition programs. First, pricing and compliance under the Multiple Award Schedule (MAS) program is of concern given that over the past few years, the Office of Inspector General (OIG) found flaws in many of the MAS contractors' proposals audited, amounting to over $1 billion in proposed contract price reductions and tens of millions in recoveries. Additionally, in April 2009, a MAS vendor agreed to pay the U.S. government $128 million to resolve alleged false claims and contract fraud. Second, the timely transition from the FTS2001 and Crossover contracts to the Networx contracts is of concern since it is one of the largest transitions in telecommunications services ever undertaken by the federal government.
FINANCIAL REPORTING	GSA systems, including its financial system of record (Pegasys), continue to have deficiencies in interoperability and interfaces. As a consequence, GSA management continues to rely heavily on manual workarounds and significant adjusting entries to prepare the financial statements and related note disclosures.
INFORMATION TECHNOLOGY	GSA's information technology (IT) challenges include three key issues: (1) the need for improved planning, development and implementation of IT systems; (2) the need for improvements in GSA's IT Security Program; and (3) the need for increased contract oversight and coordination of managed service offerings and lines of business.
HUMAN CAPITAL	Two issues have been identified: (1) succession management strategies to mitigate the risk of projected retirements of the leadership cadre; and (2) the critical gaps in the acquisition workforce, particularly with the implementation of the American Recovery and Reinvestment Act (Recovery Act) of 2009.
PROTECTION OF FEDERAL FACILITIES AND PERSONNEL	Challenges exist concerning efforts to safeguard federal facility assets and to provide a secure work environment for federal employees because of shortcomings in the Federal Protective Service's ability to provide security and the availability of funding for building security measures.
FEDERAL BUILDINGS FUND	Challenges exist for capital projects and long-term funding. The OIG is concerned that the recent influx of funding from the Recovery Act for capital projects introduces new risks. Further, while GSA devotes its attention to the Recovery Act projects, it is important that long-term funding issues are addressed since funding beyond FY 2009 may not meet GSA's needs to ensure that buildings are properly maintained.

For the GSA Inspector General's full Assessment of Major Management Challenges, see the full report in the Other Accompanying Information section of this document.

Financial Section

PRINCIPAL FINANCIAL STATEMENTS

CONSOLIDATING BALANCE SHEETS

As of September 30, 2009 and 2008
(Dollars in Millions)

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
ASSETS										
Intragovernmental Assets:										
Fund Balance with Treasury (Notes 1-D,2)	**$ 11,664**	$ 5,765	**$ 972**	$ 720	**$ 678**	$ 580	**$ -**	$ -	**$ 13,314**	$ 7,065
Accounts Receivable - Federal, Net (Note 4)	**481**	403	**1,174**	1,225	**7**	5	**45**	28	**1,617**	1,605
Prepaid Expenses and Advances - Federal	**-**	-	**1**	1	**-**	-	**-**	-	**1**	1
Total Intragovernmental	**12,145**	6,168	**2,147**	1,946	**685**	585	**45**	28	**14,932**	8,671
Inventories (Note 1-E)	**4**	6	**255**	246	**-**	-	**-**	-	**259**	252
Accounts Receivable - Public, Net (Note 4)	**6**	11	**79**	90	**31**	31	**-**	-	**116**	132
Other Assets	**39**	15	**4**	6	**108**	1	**8**	11	**143**	11
Property and Equipment (Notes 1-F,5):										
Buildings	**31,019**	29,110	**-**	-	**-**	-	**-**	-	**31,019**	29,110
Leasehold Improvements	**261**	260	**28**	26	**-**	-	**-**	-	**289**	286
Telecommunications and ADP Equipment	**-**	-	**93**	93	**-**	-	**-**	-	**93**	93
Motor Vehicles	**-**	-	**4,466**	4,268	**-**	-	**-**	-	**4,466**	4,268
Other Equipment	**118**	101	**208**	188	**105**	94	**-**	-	**431**	383
Less: Accumulated Depreciation and Amortization	**(15,872)**	(14,748)	**(1,682)**	(1,559)	**(75)**	(63)	**-**	-	**(17,629)**	(16,370)
Subtotal	**15,526**	14,723	**3,113**	3,016	**30**	31	**-**	-	**18,669**	17,770
Land	**1,582**	1,507	**-**	-	**-**	-	**-**	-	**1,582**	1,507
Construction in Process and Software in Development	**1,993**	2,054	**6**	3	**-**	-	**-**	-	**1,999**	2,057
Total Property and Equipment	**19,101**	18,284	**3,119**	3,019	**30**	31	**-**	-	**22,250**	21,334
Total Assets	**$ 31,295**	$ 24,484	**$ 5,604**	$ 5,307	**$ 854**	$ 648	**$ 53**	$ 39	**$ 37,700**	$ 30,400
LIABILITIES AND NET POSITION										
Intragovernmental Liabilities:										
Accounts Payable and Accrued Expenses - Federal	**$ 60**	$ 58	**$ 23**	$ 20	**$ 36**	$ 14	**$ 45**	$ 27	**$ 74**	$ 65
Deferred Revenue and Advances - Federal	**7**	11	**24**	27	**8**	19	**8**	11	**31**	46
Intragovernmental Debt (Notes 6, 11)	**2,037**	2,098	**-**	-	**-**	-	**-**	-	**2,037**	2,098
Other Intragovernmental Liabilities (Notes 9, 11)	**356**	330	**8**	8	**65**	65	**-**	1	**429**	402
Total Intragovernmental Liabilities	**2,460**	2,497	**55**	55	**109**	98	**53**	39	**2,571**	2,611
Accounts Payable and Accrued Expenses - Public	**1,240**	1,055	**1,058**	1,044	**37**	34	**-**	-	**2,335**	2,133
Environmental and Disposal Liabilities (Notes 5,10, 11)	**103**	103	**-**	-	**4**	2	**-**	-	**107**	105
Obligations Under Capital Leases (Notes 8, 11)	**248**	261	**-**	-	**-**	-	**-**	-	**248**	261
Workers' Compensation Actuarial Liability (Notes 7, 11)	**89**	108	**32**	37	**15**	19	**-**	-	**136**	164
Annual Leave Liability (Notes 1-G, 11)	**51**	47	**31**	29	**22**	21	**-**	-	**104**	97
Deposit Fund Liability	**-**	-	**-**	-	**54**	55	**-**	-	**54**	55
Other Liabilities (Note 9, 11)	**372**	325	**1**	1	**21**	7	**-**	-	**394**	333
Total Liabilities (Note 10)	**4,563**	4,396	**1,177**	1,166	**262**	236	**53**	39	**5,949**	5,759
NET POSITION (NOTE 14)										
Cumulative Results of Operations	**21,084**	19,906	**4,427**	4,141	**448**	314	**-**	-	**25,959**	24,361
Unexpended Appropriations	**5,648**	182	**-**	-	**144**	98	**-**	-	**5,792**	280
Total Net Position	**26,732**	20,088	**4,427**	4,141	**592**	412	**-**	-	**31,751**	24,641
Total Liabilities and Net Position	**$ 31,295**	$ 24,484	**$ 5,604**	$ 5,307	**$ 854**	$ 648	**$ 53**	$ 39	**$ 37,700**	$ 30,400

The accompanying notes are an integral part of these statements.

CONSOLIDATING STATEMENTS OF NET COST

For the Fiscal Years Ended September 30, 2009 and 2008

(Dollars in Millions)

	2009	2008
FEDERAL BUILDINGS FUND		
Revenues:		
Building Operations - Government-Owned	**$ 4,202**	$ 3,966
Building Operations - Leased	**5,830**	5,322
Expenses:		
Building Operations - Government-Owned	**3,781**	3,347
Building Operations - Leased	**5,881**	5,390
Net Revenues From (Cost of) Operations	**370**	551
ACQUISITION SERVICES FUND		
Revenues:		
General Supplies and Services	**1,623**	1,501
Travel, Motor Vehicles and Card Services	**2,296**	2,011
Integrated Technology Services	**1,448**	1,350
Assisted Acquisition Services	**3,800**	3,643
Other Programs	**46**	72
Revenues Subtotal	**9,213**	8,577
Expenses:		
General Supplies and Services	**1,571**	1,456
Travel, Motor Vehicles and Card Services	**2,155**	2,003
Integrated Technology Services	**1,393**	1,270
Assisted Acquisition Services	**3,799**	3,644
Other Programs	**64**	42
Expenses Subtotal	**8,982**	8,415
Net Revenues From (Cost of) Operations	**231**	162
OTHER FUNDS		
Revenues:		
Working Capital Fund	**448**	426
GSA OE and OGP Funds	**27**	21
Other Funds	**21**	14
Expenses:		
Working Capital Fund	**446**	432
GSA OE and OGP Funds	**145**	157
Other Funds	**154**	162
Net Revenues From (Cost of) Operations	**(249)**	(290)
LESS: INTRA-GSA ELIMINATIONS (NOTE 1-B)		
Revenues	**993**	643
Expenses	**1,033**	678
GSA CONSOLIDATED		
Revenues	**18,748**	17,683
Expenses	**18,356**	17,225
Net Revenues From (Cost of) Operations	**$ 392**	$ 458

The accompanying notes are an integral part of these statements.

CONSOLIDATING STATEMENTS OF CHANGES IN NET POSITION

For the Fiscal Years Ended September 30, 2009 and 2008

(Dollars in Millions)

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
BEGINNING BALANCE OF NET POSITION:										
Cumulative Results of Operations	**$ 19,906**	$ 19,207	**$ 4,141**	$ 3,935	**$ 314**	$264	**$ -**	$ -	**$ 24,361**	$ 23,406
Unexpended Appropriations	**182**	-	**-**	-	**98**	121	**-**	-	**280**	121
Net Position Beginning Balance	**20,088**	19,207	**4,141**	3,935	**412**	385	**-**	-	**24,641**	23,527
RESULTS OF OPERATIONS:										
Net Revenue From (Cost of) Operations	**370**	551	**231**	162	**(249)**	(290)	**(40)**	(35)	**392**	458
Appropriations Used (Note 1-C)	**731**	84	**-**	-	**487**	206	**-**	-	**1,218**	290
Non-Exchange Revenue (Notes 1-C, 1-D)	**13**	1	**-**	-	**121**	38	**-**	-	**134**	39
Imputed Financing Provided By Others	**66**	61	**49**	41	**31**	86	**40**	35	**106**	153
Transfer of Earnings Paid and Payable to U.S. Treasury	**-**	-	**-**	-	**(97)**	(18)	**-**	-	**(97)**	(18)
Transfers of Net Assets and Liabilities (To) From Other Federal Agencies	**(2)**	2	**6**	3	**(156)**	25	**-**	-	**(152)**	30
Other	**-**	-	**-**	-	**(3)**	3	**-**	-	**(3)**	3
Net Results of Operations	**1,178**	699	**286**	206	**134**	50	**-**	-	**1,598**	955
CHANGES IN UNEXPENDED APPROPRIATIONS:										
Appropriations Received	**6,201**	266	**-**	-	**534**	210	**-**	-	**6,735**	476
Appropriations Used	**(731)**	(84)	**-**	-	**(487)**	(206)	**-**	-	**(1,218)**	(290)
Appropriations Adjustments and Transfers From Other Agencies or Funds	**(4)**	-	**-**	-	**(1)**	(27)	**-**	-	**(5)**	(27)
Net Change in Unexpended Appropriations	**5,466**	182	**-**	-	**46**	(23)	**-**	-	**5,512**	159
ENDING BALANCE OF NET POSITION										
Cumulative Results of Operations	**21,084**	19,906	**4,427**	4,141	**448**	314	**-**	-	**25,959**	24,361
Unexpended Appropriations	**5,648**	182	**-**	-	**144**	98	**-**	-	**5,792**	280
Net Position Ending Balance	**$ 26,732**	$ 20,088	**$ 4,427**	$ 4,141	**$ 592**	$ 412	**$ -**	$ -	**$ 31,751**	$ 24,641

The accompanying notes are an integral part of these statements.

COMBINING STATEMENTS OF BUDGETARY RESOURCES

For the Fiscal Years Ended September 30, 2009 and 2008

(Dollars in Millions)

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		GSA COMBINED TOTALS	
	2009	2008	2009	2008	2009	2008	2009	2008
BUDGETARY RESOURCES:								
Unobligated Balance, Net - Beginning Balance	**$ 4,420**	$ 4,425	**$ 1,258**	$ 1,170	**$ 210**	$ 216	**$ 5,888**	$ 5,811
Prior Year Recoveries	**92**	134	**187**	260	**13**	29	**292**	423
Budget Authority:								
Appropriations	**6,201**	266	**-**	-	**559**	242	**6,760**	508
Spending Authority:								
Earned Revenue	**10,017**	9,317	**10,203**	9,594	**508**	459	**20,728**	19,370
Change in Unfilled Customer Orders	**572**	210	**390**	168	**(10)**	(8)	**952**	370
Previously Unavailable	**288**	141	**-**	-	**-**	-	**288**	141
Resources Temporarily Not Available	**(604)**	(288)	**-**	-	**-**	-	**(604)**	(288)
Transfers	**(61)**	(50)	**-**	-	**-**	(9)	**(61)**	(59)
Total Budgetary Resources	**20,925**	14,155	**12,038**	11,192	**1,280**	929	**34,243**	26,276
STATUS OF BUDGETARY RESOURCES:								
Obligations Incurred								
Direct		-	**-**	-			**-**	-
Category A	**-**	-			**206**	232	**206**	232
Category B	**1,394**				**308**		**1,702**	-
Reimbursable								
Category A	**10,150**	9,735	**515**	9,462	**533**	487	**11,198**	19,684
Category B	**91**	-	**10,225**	473			**10,316**	473
Unobligated Balance - Available	**8,790**	4,066	**1,293**	1,216	**57**	59	**10,140**	5,341
Unobligated Balance - Not Available	**500**	354	**5**	41	**176**	151	**681**	546
Total Status of Budgetary Resources	**20,925**	14,155	**12,038**	11,192	**1,280**	929	**34,243**	26,276
CHANGE IN OBLIGATED BALANCE:								
Obligated Balance, Net - Beginning Balance								
Unpaid Obligations, Oct 1	**3,807**	3,525	**3,786**	3,538	**197**	178	**7,790**	7,241
Less: Uncollected Customer Payments, Oct 1	**(2,707)**	(2,421)	**(4,323)**	(3,926)	**(14)**	(10)	**(7,044)**	(6,357)
Obligations Incurred	**11,635**	9,735	**10,740**	9,935	**1,047**	719	**23,422**	20,389
Less: Gross Outlays	**(10,183)**	(9,319)	**(10,008)**	(9,427)	**(977)**	(671)	**(21,168)**	(19,417)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	**(92)**	(134)	**(187)**	(260)	**(13)**	(29)	**(292)**	(423)
Change in Uncollected Customer Payments (Increase)/Decrease	**(654)**	(286)	**(334)**	(397)	**1**	(4)	**(987)**	(687)
Obligated Balance, Net - End of Period:								
Unpaid Obligations	**5,167**	3,807	**4,331**	3,786	**254**	197	**9,752**	7,790
Less: Uncollected Customer Payments	**(3,361)**	(2,707)	**(4,657)**	(4,323)	**(13)**	(14)	**(8,031)**	(7,044)
NET OUTLAYS								
Gross Outlays	**10,183**	9,319	**10,008**	9,427	**977**	671	**21,168**	19,417
Less: Offsetting Collections	**(9,935)**	(9,241)	**(10,259)**	(9,366)	**(499)**	(447)	**(20,693)**	(19,054)
Less: Offsetting Receipts	**-**	-	**-**	-	**(155)**	(21)	**(155)**	(21)
Net Outlays	**$ 248**	$ 78	**$ (251)**	$ 61	**$ 323**	$ 203	**$ 320**	$ 342

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Fiscal Years Ended September 30, 2009 and 2008

GSA was created by the U.S. Federal Property and Administrative Services Act of 1949, as amended. Congress enacted this legislation to provide for the federal government an economic and efficient system for the procurement and operation of buildings, procurement and distribution of general supplies, acquisition and management of a motor vehicle fleet, management of automated data processing resources, and management of telecommunications programs.

The Administrator of General Services, appointed by the President of the United States with the advice and consent of the U.S. Senate, oversees the operations of GSA. GSA carries out its responsibilities through the operation of several appropriated and revolving funds.

1. SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

For its principal financial statements, GSA uses consolidating and combining formats to display its two largest components: the Federal Buildings Fund (FBF) and the Acquisition Services Fund (ASF). All other funds have been combined under Other Funds.

The FBF is the primary fund used to record activities of the Public Buildings Service (PBS). The ASF, created by law in FY 2007 from the merging of GSA's former Information Technology Fund and General Supply Fund, is the primary fund used to record activities of the Federal Acquisition Service (FAS).

GSA's accompanying financial statements include the accounts of all funds which have been established and maintained to account for resources under the control of GSA management. The entities included in the Other Funds category are described below, together with a discussion of the different fund types.

Revolving Funds are accounts established by law to finance a continuing cycle of operations with receipts derived from such operations usually available in their entirety for use by the fund without further action by Congress. The Revolving Funds in the Other Funds category consist of the following:

- Federal Citizen Services Fund (FCSF)
- Working Capital Fund (WCF)

General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. GSA manages 16 General Fund accounts of which five are funded by current year appropriations, two by no-year appropriations, three by multi-year appropriations, and six which cannot incur new obligations. The General Funds included in the Other Funds category are as follows:

- Allowances and Office Staff for Former Presidents
- Budget Clearing Account – Broker Rebates
- Budget Clearing Account – Proceeds of Sales, Personal Property
- Budget Clearing Account – Real Property
- Budget Clearing Account – Suspense
- Budget Clearing Account - Undistributed Intragovernmental Payments
- Energy-Efficient Federal Motor Vehicle Fleet Procurement – Recovery Act
- Excess and Surplus Real and Related Personal Property Holding Account
- Expenses, Electronic Government Fund
- Expenses, Presidential Transition
- Government-Wide Policy – Recovery Act
- Office of Inspector General (OIG)
- Office of Inspector General – Recovery Act
- Operating Expenses, GSA
- Operating Expenses, Government-Wide Policy
- Real Property Relocation

Special Funds are accounts established for receipts earmarked by law for a specific purpose, but are not generated by a cycle of operations for which there is continuing authority to reuse such receipts. In accordance with Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, these Special Funds are classified as earmarked funds. Although immaterial, earmarked fund balances are displayed in Note 2-B. GSA uses Special Fund receipts to pay certain costs associated with the disposal of surplus real property, for funding of the Transportation Audits program, and to fund the Acquisition Workforce Training program. GSA's Special Funds consist of the following:

- Expenses, Disposal of Real and Related Personal Property
- Expenses, Transportation Audits
- Expenses, Acquisition Workforce Training Fund
- Operating Expenses, Disposal of Real and Related Personal Property
- Other Receipts, Surplus Real and Related Personal Property
- Receipts of Rent, Leases and Lease Payments for Government-Owned Real Property
- Receipts, Transportation Audits
- Receipts, Acquisition Workforce Training Fund
- Transfer of Surplus Real and Related Personal Property

Miscellaneous Receipt and Deposit Fund accounts are considered non-entity funds since GSA management does not exercise control over how the monies in these accounts can be used. Miscellaneous Receipt Fund accounts hold receipts and accounts receivable resulting from miscellaneous activities of GSA where, by law, such monies may not be deposited into funds under GSA management control. The U.S. Department of the Treasury (U.S. Treasury) automatically transfers all cash balances in these receipt accounts to general funds of the U.S. Treasury at the end of each fiscal year. Deposit Fund accounts hold monies outside the budget. Accordingly, their transactions do not affect budget surplus or deficit. These accounts include (1) deposits received for which GSA is acting as an agent or custodian, (2) unidentified remittances, (3) monies withheld from payments for goods and services received and (4) monies whose distribution awaits a legal determination or investigation. The receipt and deposit funds in the Other Funds category consist of the following:

- Advances Without Orders from Non-Federal Sources
- Employees' Payroll Allotment Account, U.S. Savings Bonds
- Fines, Penalties, and Forfeitures, Not Otherwise Classified
- Forfeitures of Unclaimed Money and Property
- General Fund Proprietary Interest, Not Otherwise Classified
- General Fund Proprietary Receipts, Not Otherwise Classified, All Other
- Other Earnings From Business Operations and Intragovernmental Revolving Funds
- Proceeds from Sale of Surplus Property
- Reserve for Purchase Contract Projects
- Small Escrow Amounts
- Unconditional Gifts of Real, Personal or Other Property
- Withheld State and Local Taxes

In the FBF, Electronic Government Fund, Allowances and Staff for Former Presidents Fund, and Real Property Relocation Fund, GSA has delegated certain program and financial operations of a portion of these funds to other federal agencies to execute on GSA's behalf. Unique sub-accounts, also known as allocation accounts (child), of GSA's funds (parent) are created in the U.S. Treasury to provide for the reporting of obligations and outlays incurred by such other agencies. Generally, all child allocation account financial activity is reportable in combination with the results of the parent fund, from which the underlying legislative authority, appropriations and budget apportionments are derived. GSA has allocation accounts in this regard with the following federal entities: the U.S. Departments of Treasury, Defense, Commerce, Homeland Security, and Interior; the U.S. Office of Personnel Management (OPM); and the U.S. Small Business Administration.

B. Basis of Accounting

The principal financial statements are prepared from the books and records of GSA, in accordance with generally accepted accounting principles (GAAP) as promulgated by FASAB, and Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, in all material respects. FASAB SFFAS No. 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Federal Accounting Standards Board,* established the hierarchy of GAAP for federal financial statements. These formats are considerably different from business-type formats. The Consolidating Statements of Net Cost present the operating results of the FBF, ASF and Other Funds, as well as GSA Consolidated operating results as a whole. The Consolidating Balance Sheets present the financial position of GSA using a format clearly segregating intragovernmental balances. The Consolidating Statements of Changes in Net Position display the changes in equity accounts. The Combining Statements of Budgetary Resources (CSBR) present the sources, status and uses of GSA's budgetary resources.

GSA reconciles all intragovernmental fiduciary transaction activity, and works with agency partners to reduce significant or material differences reported by other agencies in conformance with U.S. Treasury intragovernmental reporting guidelines and requirements of OMB Circular A-136.

Certain prior year balances have been reclassified to conform with the current year's presentation.

On the Consolidating Statements of Net Cost, Consolidating Balance Sheets and Consolidating Statements of Changes in Net Position, all significant intra-agency balances and transactions have been eliminated in consolidation. No such eliminations have been made on the CSBR. Certain amounts of expenses eliminated on the Consolidating Statements of Net Cost are imputed costs for which the matching resource is not revenue on this statement, but imputed resources provided by others, displayed on the Consolidating Statements of Changes in Net Position. Accordingly, on the Consolidating Statements of Net Cost the revenue and expense eliminations do not match. The Consolidating Statements of Changes in Net Position display the offsetting balances between these categories.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Operating expenses and related accounts payable accruals and estimates are recorded in the period goods or services are received.

C. Revenue Recognition and Appropriations Used

Substantially all revenues reported by GSA's funds on the Consolidating Statements of Net Cost are generated from intragovernmental sales of goods and services. GSA earns 96 percent of revenues from other federal customers. Expenses are primarily incurred with non-federal entities supplying the underlying goods and services being provided to GSA's federal customers, with only four percent of operating expenses resulting from purchases from federal agencies. Each fund has established rate-setting processes governed by the laws authorizing its activities. In most cases, the rates charged are intended to cover the full cost that GSA funds will pay to provide such goods and services and to provide capital maintenance. In accordance with the governing laws, rates are generally not designed to recover imputed costs not borne by GSA, but covered by other funds or entities of the U.S. government, such as for post-employment and other inter-entity costs. Revenues from non-federal entities make up an immaterial portion of GSA's total sales. Accordingly, where not otherwise governed by law, unique rates for non-federal customers have generally not been established.

Generally, Revolving Fund and reimbursable General Fund revenue is recognized when goods have been delivered or services rendered.

- In the FBF, rent revenues are earned based on occupancy agreements with customers, as space and services are provided. Generally, agencies housed in government-owned buildings are billed for space at rent based upon commercial rates for comparable space. Agencies housed in buildings leased by GSA are generally billed at rates to recover GSA's cost of that space. In some instances special rates are arranged in accordance with congressional guidance or other authorized purposes. Most agencies using funding from Trust Funds have rent rates set to recover full cost. Revenue under nonrecurring reimbursable building repairs and alterations (R&A) projects is recognized under the percentage-of-completion method.
- In the ASF, Global Supply revenues are recognized as goods are provided to customers. Vehicle acquisition revenues are recognized when goods are provided. Vehicle leasing revenues are recognized based on rental arrangements over the period vehicles are dispatched. Commercial Acquisitions revenues are recognized when goods are provided, and fee revenues in the GSA Schedules programs are earned based on estimated and actual usage of GSA's contracting vehicles by other agencies. The Schedules programs generated $284 million in fees, constituting three percent of ASF revenues in FY 2009, and $286 million, three percent of ASF revenues, in FY 2008. Professional Services revenues are recognized when goods and services are provided. Telecommunications service revenues are generally recognized based on customer usage or on fixed line rates. Information Technology (IT) Solutions revenues are earned when goods or services are provided or as reimbursable project costs are incurred.
- In the WCF, revenues are generally recognized as general management and administrative services are provided to the service components of GSA and to external customers. Such WCF revenues are earned in accordance with agreements that recover the direct cost and an allocation of indirect costs from the components of GSA receiving those services.

Non-Exchange Revenues are recognized on an accrual basis on the Consolidating Statements of Changes in Net Position for sales of surplus real property, reimbursements due from the audit of payments to transportation carriers, and other miscellaneous items resulting from GSA's operations where ultimate collections must be deposited in miscellaneous receipt accounts of the U.S. Treasury. Non-Exchange Revenues are reported net of associated bad debt expense on uncollectible accounts.

Appropriations for General Fund and Special Fund activities are recorded as a financing source on the Consolidating Statements of Changes in Net Position when expended. Unexpended appropriations are reported as an element of Net Position on the Consolidating Balance Sheets.

D. Fund Balance with Treasury

This total represents all unexpended balances for GSA's accounts with the U.S. Treasury. Amounts in Fund Balance with Treasury are based on the balances reported on the books of the U.S. Treasury, as the official record of the federal government. Adjustments are only made to those amounts when significant differences are identified.

GSA acts as a disposal agent for surplus federal real and personal property. In some cases, public law entitles the owning agency to the sales proceeds, net of disposal expenses incurred by GSA. Proceeds from the disposal of equipment are generally retained by GSA to replace equipment. Under GSA's legislative authorities, the gross proceeds from some sales are deposited in GSA's Special Fund receipt accounts and recorded as Non-Exchange Revenues in the Consolidating Statements of Changes in Net Position. A portion of these proceeds is subsequently transferred to a Special Fund to finance expenses incurred in disposing of surplus property. The remainder is periodically accumulated and transferred, by law, to the Land and Water Conservation Fund administered by the U.S. Department of the Interior (DOI).

E. Inventories

Inventories held for sale to other federal agencies consist primarily of ASF inventories valued at historical cost, generally determined on a moving average basis. The recorded values are adjusted for the results of physical inventories taken periodically in accordance with a cyclical counting plan. In the ASF, $7.1 million of the balances in inventories held for sale are excess inventories. Excess inventories are defined as those exceeding the economic retention limit (i.e., the number of units of stock which may be held in inventory without incurring excessive carrying costs). Excess inventories are generally transferred to another federal agency, sold, or donated to state or local governments.

In the FBF, inventory balances consist of operating supplies and materials that will be consumed in operations. In accordance with FASAB SFFAS No. 3, *Accounting for Inventory and Related Property*, as balances of these supplies are immaterial and in the hands of end users for use in normal operations, they are accounted for using the purchases method. Amounts on hand at the end of the reporting period are valued at market for presentation on the Consolidating Balance Sheets.

F. Property and Equipment (See Note 5)

Generally, property and equipment purchases and additions of $10,000 or more, and having a useful life of two or more years, are capitalized and valued at cost. Property and equipment transferred to GSA from other federal agencies on the date GSA was established is stated at the transfer value, which approximates historical cost. Subsequent thereto, equipment transferred to GSA is stated at net book value, and surplus real and related personal property transferred to GSA is stated at the lower of net book value or appraised value.

Expenditures for major additions, replacements and alterations to real property of $50,000 or more are capitalized. Normal repair and maintenance costs are expensed as incurred. The cost of R&A and leasehold improvements performed by GSA, but financed by other agencies, is not capitalized in GSA's financial statements as such amounts are transferred to the other agencies upon completion of the project. The majority of all land, buildings and leasehold improvements are leased to other federal agencies under short-term cancellable agreements.

Depreciation and amortization of property and equipment are calculated on a straight-line basis over their initial or remaining useful lives. Leasehold Improvements are amortized over the lesser of their useful lives, generally five years, or the unexpired lease term. Buildings capitalized by the FBF at its inception in 1974 were assigned remaining useful lives of 30 years. Prior to 1974, no depreciation was recorded by GSA. It is GSA policy to capitalize construction costs in the Land and Buildings accounts upon project completion. Buildings acquired under capital lease agreements are also depreciated over 30 years. Major and minor building renovation projects carry estimated useful lives of 20 years and 10 years, respectively.

Telecommunications and Automated Data Processing (ADP) Equipment are used in operations to perform services for other federal agencies for which billings are rendered. Most of the assets comprising Other Equipment are used internally by GSA. Telecommunications and ADP Equipment, and Other Equipment categories are depreciated over periods generally ranging from three to 10 years.

Motor Vehicles are generally depreciated over four to 12 years.

In accordance with FASAB SFFAS No. 10, *Accounting for Internal Use Software*, capitalization of software development costs incurred for systems having a useful life of two years or more is required. With implementation of this standard, GSA adopted minimum dollar thresholds per system that would be required before capitalization would be warranted. For the FBF, this minimum threshold is $1 million. For all other funds, it is $250,000. Once completed, software applications are depreciated over an estimated useful life determined on a case-by-case basis, ranging from three to 10 years. Capitalized software is reported as an element of Other Equipment on the Consolidating Balance Sheets.

G. Annual, Sick and Other Types of Leave

Annual leave liability is accrued as it is earned and the accrual is relieved as leave is taken. Each year the balance in the accrued annual leave account is adjusted to reflect current pay rates.

Sick leave and other types of nonvested leave are expensed as taken.

2. FUND BALANCE WITH TREASURY

A. Reconciliation to U.S. Treasury

There were only negligible differences between amounts reported by GSA and those reported to the U.S. Treasury as of September 30, 2009 and 2008.

B. Balances by Fund Type

GSA's most significant amounts in Fund Balance with Treasury are found in its revolving funds such as the FBF and ASF. Within the Other Funds category, Special Receipt, and Special and Trust Expenditure Funds are classified as earmarked funds in accordance with FASAB SFFAS No. 27. The fund balances in the Other Funds category contains amounts in the following fund types (dollars in millions):

	2009	2008
Revolving Funds	**$ 256**	$ 234
Appropriated and General Funds	**205**	128
Special Receipt Funds	**120**	118
Special and Trust Expenditure Funds	**43**	45
Deposit Funds	**54**	55
Total Other Funds	**$ 678**	$ 580

C. Relationship to the Budget

In accordance with FASAB SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, the following information is provided to further identify amounts in Fund Balance with Treasury as of September 30, 2009 and 2008, against which obligations have been made, and for unobligated balances, to identify amounts available for future expenditures and those only available to liquidate prior obligations. Unobligated balances presented below will not equal related amounts reported on the CSBR. In the FBF, the CSBR includes balances associated with borrowing authority for which actual funds have not yet been realized (see Note 6). In the Other Funds group, the schedule below includes unavailable unobligated balances of Special Receipt and Deposit Funds, shown above in Note 2-B, which are not reportable for purposes of the CSBR. The following schedule presents elements of the Fund Balance with Treasury (dollars in millions):

	Obligated Balance, Net	Unobligated Balance Available	Unavailable	Total
2009				
FBF	$ 1,800	$ 8,760	$ 1,104	$ 11,664
ASF	(326)	1,293	5	972
Others	241	57	380	678
Total	$ 1,715	$ 10,110	$ 1,489	$ 13,314
2008				
FBF	$ 1,088	$ 4,035	$ 642	$ 5,765
ASF	(537)	1,216	41	720
Others	183	59	338	580
Total	$ 734	$ 5,310	$ 1,021	$ 7,065

D. *Availability of Funds*

In GSA's earmarked Special Receipt Funds, included in balances of Fund Balance with Treasury, are certain amounts that may be transferred to either the U.S. Treasury, or the Land and Water Conservation Fund (see Note 1-D). These amounts, related to the Transportation Audits program, Acquisition Workforce Training program and surplus real property disposals, are subject to transfer subsequent to GSA's determination of the internal working capital needs of these programs. Such amounts totaled $120 million and $118 million at September 30, 2009 and 2008, respectively, of which $43 million and $46 million, respectively, were recorded as liabilities in the Consolidating Balance Sheets.

In FYs 2009 and 2008, $0.7 million and $0.2 million, respectively, of unused funds from expired appropriations were returned to the U.S. Treasury as of September 30. Such balances are excluded from the amount reported as Fund Balance with Treasury in accordance with U.S. Treasury guidelines.

A portion of Fund Balance with Treasury also includes amounts where authority to incur new obligations has expired, but are available to liquidate residual obligations that originated when the funds were available. Such expired balances totaled $49 million and $46 million at September 30, 2009 and 2008, respectively.

The FBF has balances that are temporarily not available in accordance with annual appropriation acts that limit the amount of reimbursable resources that are available for spending each year. Such amounts totaled $604 million and $288 million at September 30, 2009 and 2008, respectively, and will not be available for expenditure except as authorized in future appropriation acts.

Under ASF legislative authorities, GSA is allowed to retain earnings to ensure the fund has sufficient resources to support operations in association with a cost and capital planning process as approved by the Administrator of GSA. At the end of FY 2009 and 2008, management determined that all earnings will be retained in accordance with this process.

3. NON-ENTITY ASSETS

As of September 30, 2009 and 2008, certain amounts reported on the Consolidating Balance Sheets are not available to management for use in ongoing operations and are classified as Non-entity assets (see Note 1-A). These balances consisted of $86 million and $70 million, respectively in Fund Balance with Treasury.

4. ACCOUNTS RECEIVABLE, NET

Substantially, all accounts receivable are from other federal agencies. Unbilled accounts receivable result from the delivery of goods, or performance of services for which bills have not yet been rendered. Allowances for doubtful accounts are recorded using aging methodologies based on analysis of historical collections and write-offs.

A summary of Accounts Receivable is as follows (dollars in millions):

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Accounts Receivable - Billed	$ 132	$ 143	$ 100	$ 108	$ 36	$ 35	$ -	$ -	$ 268	$ 286
Accounts Receivable - Unbilled	369	288	1,156	1,209	7	5	45	28	1,487	1,474
Allowance for Doubtful Accounts	(14)	(17)	(3)	(2)	(5)	(4)	-	-	(22)	(23)
Total Accounts Receivable, Net	$ 487	$ 414	$ 1,253	$ 1,315	$ 38	$ 36	$ 45	$ 28	$ 1,733	$ 1,737

5. PROPERTY AND EQUIPMENT, NET

A. *Summary of Balances*

Balances in GSA's Property and Equipment accounts subject to depreciation as of September 30, 2009 and 2008, are summarized below (dollars in millions):

	2009			2008		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Buildings	$ 31,019	$ 15,599	$ 15,420	$ 29,110	$ 14,502	$ 14,608
Leasehold Improvements	289	219	70	286	210	76
Telecom and ADP Equipment	93	91	2	93	90	3
Motor Vehicles	4,466	1,416	3,050	4,268	1,324	2,944
Other Equipment	431	304	127	383	244	139
Total	$ 36,298	$ 17,629	$ 18,669	$ 34,140	$ 16,370	$ 17,770

B. Cleanup Costs

In GSA's FBF, certain properties contain environmental hazards that will ultimately need to be removed and/or require containment mechanisms to prevent health risks to the public. Cleanup of such hazards is governed by various federal and state laws. The laws most applicable to GSA are the Comprehensive Environmental Response Compensation and Liability Act of 1980, the Clean Air Act, and the Resource Conservation and Recovery Act.

In accordance with FASAB SFFAS No. 5 and 6, *Accounting for Liabilities of the Federal Government* and *Accounting for Property, Plant, and Equipment*, respectively, and interpretive guidance in Federal Financial Accounting and Auditing Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government,* issued by the FASAB Accounting and Auditing Policy Committee, if an agency is required by law to clean up such hazard, the estimated amount of cleanup cost must be reported in the financial statements.

Accordingly, GSA recognized liabilities totaling $103 million for Environmental and Disposals costs in both FYs 2009 and 2008, for properties currently in GSA's property inventory. In instances where no reasonable estimate of the cost to clean up a particular site could be made, GSA recognized the estimated costs for related environmental studies as is prescribed in the guidance noted above. Management has estimated an additional $19 million and $15 million as of September 30, 2009, and 2008, respectively, of potential cleanup costs where it is only possible that GSA could incur additional costs. In some instances, GSA has been named as a party in certain environmental cases where the subject property is no longer in the GSA or federal property inventory. GSA's liability for such cases is further discussed in Note 10.

C. Heritage Assets

With an average age of GSA's buildings being over 46 years old, many buildings have historical, cultural and/or architectural significance. While GSA uses these buildings to meet the office space and other needs of the federal government, maintaining and preserving these historical elements is a significant priority. In accordance with FASAB SFFAS No. 29, *Heritage Assets and Stewardship Land*, these buildings meet the definition of Multi-use Heritage Assets, and are reportable within Property and Equipment on the Consolidating Balance Sheets.

GSA defines its Historic Buildings as those buildings that are either listed on the National Register of Historic Places, have formally been determined eligible, or appear to meet eligibility criteria to be listed. GSA has 301 buildings on the National Register, up from 293 at the end of FY 2008, of which 107 are designated as National Historical Landmarks. An additional 182 buildings are potentially eligible for listing on the National Register, but have not gone through the formal determination process. Under the National Historic Preservation Act, GSA is required to give these buildings special consideration, including first preference for federal use and rehabilitation in accordance with standards established by the DOI.

6. INTRAGOVERNMENTAL DEBT

A. Lease Purchase Debt

Starting in FY 1991, GSA entered into several agreements to fund the purchase of land and construction of buildings under the FBF lease purchase authority. Under these agreements, the FBF borrows monies (as advance payments) through the Federal Financing Bank (FFB) or executes lease-to-own contracts to finance the lease purchases. Mortgage loans and construction advances held by the FFB are due at various dates from June 28, 2021, through August 1, 2035, at interest rates ranging from 2.578 percent to 8.561 percent. The program authorizes total expenditures of $1,945 million for 11 projects. In FYs 2009 and 2008, the FFB made advance payments on behalf of GSA totaling $5 million and $8 million, respectively. As of September 30, 2009 and 2008, $37 million and $42 million, respectively, of borrowing authority under the lease purchase program remained available for additional advance payments.

Resources to retire debt are obtained from annual revenues generated by the FBF. Aggregate debt maturities are as follows (dollars in millions): 2010 - $50; 2011 - $54; 2012 - $57; 2013 - $61; 2014 - $66; 2015 and beyond - $1,100.

B. Pennsylvania Avenue Debt

The former Pennsylvania Avenue Development Corporation (PADC) originally received authority to borrow from the FFB to finance construction of the Ronald Reagan Building (RRB) in Washington, D.C., with a project budget of $738 million. Effective March 31, 1996, the PADC was dissolved, with portions of its functions, assets and liabilities being transferred to GSA, including the RRB.

Subsequent legislation consolidated GSA's portion of these assets and liabilities into the FBF, in which the cost and associated debt for the RRB is now recorded. Mortgage loans for the RRB are due November 2, 2026, at interest rates ranging from 4.004 percent to 8.323 percent.

No additional amounts are anticipated to be borrowed under this authority.

Aggregate maturities on debt related to the RRB are as follows (dollars in millions): 2010 - $20; 2011 - $21; 2012 - $23; 2013 - $25; 2014 - $27; 2015 and beyond - $553.

C. Schedules of Debt Arrangements

GSA's outstanding debt arrangements in the FBF at September 30, 2009, and 2008, were as follows (dollars in millions):

	2009	2008
Lease Purchase Debt	**$ 1,388**	$ 1,430
Pennsylvania Avenue Debt	**649**	668
Total GSA Debt	**$ 2,037**	$ 2,098

7. WORKERS' COMPENSATION BENEFITS

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from the federal agencies employing the claimants. DOL provides the actuarial liability for claims outstanding at the end of each fiscal year. This liability includes the estimated future costs of death benefits, workers' compensation, and medical and miscellaneous costs for approved compensation cases. The present value of these estimates at the end of FY 2009 was calculated by DOL using a discount rate of 4.223 percent for FY 2009, and 4.715 percent for FY 2010 and thereafter. At the end of FY 2008, the discount rate used was 4.368 percent for FY 2008, and 4.770 percent for FY 2009 and thereafter. At September 30, 2009 and 2008, GSA's actuarial liability totaled $136 million and $164 million, respectively.

8. LEASING ARRANGEMENTS

As of September 30, 2009, GSA was committed to various non-cancellable operating leases primarily covering administrative office space and storage facilities maintained by the FBF. Many of these leases contain escalation clauses tied to inflationary and tax increases, and renewal options. GSA also uses a small volume of operating leases of vehicles in the ASF to fill demand when sufficient owned vehicles are not available. The following are schedules of future minimum rental payments required under leases that have initial or remaining non-cancellable terms in excess of one year, and under capital leases together with the present value of the future minimum lease payments (dollars in millions):

OPERATING LEASES	
FISCAL YEAR	**TOTAL**
2010	$ 4,572
2011	3,749
2012	3,243
2013	2,722
2014	2,250
2015 and thereafter	8,296
Total future minimum lease payments	$ 24,832

CAPITAL LEASES	
FISCAL YEAR	**FBF**
2010	$ 31
2011	32
2012	32
2013	31
2014	31
2015 and thereafter	209
Total future minimum lease payments	366
Less: Amounts representing-	
Interest	116
Executory Costs	2
Total obligations under capital leases	$ 248

Substantially all leased space maintained by the FBF is sublet to other federal agencies at rent charges to recover GSA's cost of that space. The majority of agreements covering the sublease arrangements allow customer agencies to terminate the sublease at any time. In those cases GSA believes the subleases will continue without interruption. In some instances agreements with customers include non-cancellation clauses. The following is a schedule of future minimum rentals due GSA under such non-cancellable leases (dollars in millions):

OPERATING LEASE RENTALS	
FISCAL YEAR	**TOTAL**
2010	$ 495
2011	431
2012	380
2013	339
2014	284
2015 and thereafter	1,684
Total future minimum lease rentals	$ 3,613

Rental income under subleasing agreements and related reimbursable arrangements approximated $5.8 billion and $5.3 billion for the FYs ended September 30, 2009 and 2008, respectively. Rent expense under all operating leases, including short-term non-cancellable leases, was approximately $5 billion and $4.6 billion in FYs 2009 and 2008, respectively. The Consolidating Balance Sheets as of September 30, 2009 and 2008, include capital lease assets of $363 million and $359 million, respectively, for buildings. Aggregate accumulated amortization on such structures totaled $163 million and $152 million in those years, respectively. For substantially all of its leased property, GSA expects that in the normal course of business such leases will be either renewed or replaced in accordance with the needs of its customer agencies.

9. OTHER LIABILITIES

As of September 30, 2009 and 2008, amounts reported on the Consolidating Balance Sheets as Other Intragovernmental Liabilities and Other Liabilities, which are substantially all long-term in nature, consisted of the following (dollars in millions):

	FBF	ASF	OTHERS	LESS: INTRA-GSA ELIMINATION	TOTAL GSA
2009					
Other Intragovernmental Liabilities:					
Workers' Compensation Due to DOL	$ 21	$ 8	$ 3	$ -	$ 32
Deposits Held in Suspense	-	-	31	-	31
Earnings Payable to Treasury	-	-	31	-	31
Payments Due to the Judgement Fund (Note 10)	335	-	-	-	335
Total	$ 356	$ 8	$ 65	$ -	$ 429
Other Liabilities:					
Contingencies	$ 17	$ -	$ -	$ -	$ 17
Installment Purchase Liabilities	167	-	-	-	167
Pensions for Former Presidents	-	-	8	-	8
Unamortized Rent Abatments	186	-	-	-	186
Deferred Revenues/Advances from the Public	2	1	13	-	16
Total	$ 372	$ 1	$ 21	$ -	$ 394
2008					
Other Intragovernmental Liabilities:					
Workers' Compensation Due to DOL	$ 22	$ 8	$ 4	$ -	$ 34
Deposits Held in Suspense	-	-	14	1	13
Earnings Payable to Treasury	-	-	47	-	47
Payments Due to the Judgement Fund (Note 10)	308	-	-	-	308
Total	$ 330	$ 8	$ 65	$ 1	$ 402
Other Liabilities:					
Contingencies	$ 20	$ -	$ -	$ -	$ 20
Installment Purchase Liabilities	144	-	-	-	144
Pensions for Former Presidents	-	-	7	-	7
Unamortized Rent Abatments	155	-	-	-	155
Deferred Revenues/Advances from the Public	6	1	-	-	7
Total	$ 325	$ 1	$ 7	$ -	$ 333

10. COMMITMENTS AND CONTINGENCIES

A. Commitments and Undelivered Orders

In addition to future lease commitments discussed in Note 8, GSA is committed under obligations for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all GSA activities at September 30, 2009 and 2008, were as follows (dollars in millions):

	2009	2008
FBF	**$ 3,850**	$ 2,677
ASF	**3,243**	2,711
Other Funds	**181**	149
Total Undelivered Orders	**$ 7,274**	$ 5,537

In fiscal year 2007, GSA awarded eight contracts for world-wide telecommunications and network services (Networx Universal and Networx Enterprise) to replace the previous FTS2001 contracts, and to provide voice, wireless, IP, satellite, and related telecommunications services for the federal community. These contracts are primarily funded through the ASF Integrated Technology Services portfolio. The contracts provide minimum revenue guarantees totaling $575 million, of which $535 million remained outstanding as of September 30, 2009. Given the value of services GSA estimates it will procure through these contracts, management considers the risk of not meeting the minimum revenue guarantees to be remote.

B. Contingencies

GSA is a party in various administrative proceedings, legal actions, environmental suits and claims brought by or against it. In the opinion of GSA management and legal counsel, the ultimate resolution of these proceedings, actions and claims will not materially affect the financial position or results of operations of GSA. Based on the nature of each claim, resources available to liquidate these liabilities may be from GSA funds or, in some instances, are covered by the U.S. Treasury's Judgment Fund, as discussed below.

- As of September 30, 2009 and 2008, GSA recorded liabilities in total of $98 million and $102 million, respectively, for pending and threatened legal matters for which, in the opinion of GSA management and legal counsel, GSA funds will probably incur losses. Of these amounts, $82 million and $83 million, respectively, relate to environmental claims. Environmental claims are included in Environmental and Disposal Liabilities, and the balance of probable contingent liabilities are reported within Other Liabilities on the Consolidating Balance Sheets.

  In addition, GSA had another $97 million and $112 million in contingencies at September 30, 2009 and 2008, respectively, where it is reasonably possible, but not probable, that GSA funds will incur some cost. Accordingly, no balances have been recorded in the financial statements for these contingencies.

  In most cases, legal matters which directly involve GSA relate to contractual arrangements GSA has entered into either for property and services it has obtained or procured on behalf of other federal agencies. The costs of administering, litigating and resolving these actions are generally borne by GSA unless it can recover the cost from another federal agency. Certain legal matters in which GSA may be named party are administered and, in some instances, litigated by other federal agencies. Amounts to be paid under any decision, settlement or award pertaining thereto are sometimes funded by those agencies.

- In many cases, tort and environmental claims are administered and resolved by the U.S. Department of Justice (DOJ), and any amounts necessary for resolution are obtained from a special Judgment Fund maintained by the U.S. Treasury. In accordance with the FASAB's Interpretation No. 2, *Accounting for Treasury Judgment Fund Transactions*, costs incurred by the federal government are to be reported by the agency responsible for incurring the liability, or to which liability has been assigned, regardless of the ultimate source of funding. In accordance with this interpretation, GSA reported $5 million and $2 million in FYs 2009 and 2008, respectively, of Environmental and Disposals and Other Liabilities for contingencies which will require funding exclusively through the Judgment Fund. Of those amounts, approximately $4 million and $2 million result from several environmental cases outstanding at the end of FYs 2009 and 2008, respectively, where GSA has been named as a potentially responsible party. Environmental costs are estimated in accordance with the FASAB Accounting and Auditing Policy Committee's Federal Financial Accounting and Auditing Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

Additional contingencies subject to ultimate funding from the Judgment Fund where the risk of loss is reasonably possible, but not probable, ranged from $240 million to $3.6 billion at September 30, 2009 and ranged from $199 million to $3.6 billion at September 30, 2008.

The recognition of claims to be funded through the Judgment Fund on GSA's Consolidating Statements of Net Cost and Consolidating Balance Sheets is, in effect, recognition of these liabilities against the federal government as a whole, and should not be interpreted as claims against the assets or resources of any GSA fund, nor will any future resources of GSA be required to liquidate any resulting losses. Further, for most environmental claims, GSA has no managerial responsibility other than as custodian and successor on claims made against former federal entities, particularly former World War II defense related activities.

Amounts paid from the Judgment Fund on behalf of GSA were $37 million and $108 million in FYs 2009 and 2008, respectively. Of these amounts, $27 million and $40 million, respectively, related to claims filed under the Contract Disputes Act for which payments have been or will be made to reimburse the Judgment Fund by the GSA funds liable under the contracts in dispute. The balance of claims paid on behalf of GSA does not require reimbursement to the Judgment Fund.

11. UNFUNDED LIABILITIES

As of September 30, 2009 and 2008, budgetary resources were not yet available to fund certain liabilities reported on the Consolidating Balance Sheets. For such liabilities, most are long-term in nature where funding is generally made available in the year payments are due or anticipated. The portion of liabilities reported on the Consolidating Balance Sheets that are not covered by budgetary resources consists of the following (dollars in millions):

	2009	2008
Intragovernmental Debt	**$ 11**	$ 20
Other Intragovernmental Liabilities	**429**	402
Obligations Under Capital Lease	**228**	241
Workers' Compensation Actuarial Liabilities	**136**	164
Environmental and Disposal	**107**	105
Annual Leave Liability	**104**	97
Other Liabilities	**378**	326
Total Liabilities Not Covered By Budgetary Resources	**$ 1,393**	$ 1,355

Certain balances, while also unfunded by definition (as no budgetary resources have been applied), will be liquidated from resources outside of the traditional budgeting process and require no further congressional action to do so. Such balances include: 1) amounts reported in the Consolidating Balance Sheets under the caption Deposit Fund Liability; 2) the portion of amounts included in Other Intragovernmental Liabilities shown as Deposits Held in Suspense and Earnings Payable to Treasury in Note 9; and 3) the portion of amounts included in Other Liabilities shown as Deferred Revenues/Advances From the Public in Note 9.

12. RECONCILIATION TO THE PRESIDENT'S BUDGET

In accordance with FASAB SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, if there are differences between amounts reported in these financial statements versus those reported in the most recent Budget of the United States Government (President's Budget), they must be disclosed. With the President's Budget generally released in February each year, the most current comparable data is the FY 2010 President's Budget, which contains FY 2008 financial statement results. The FY 2011 President's Budget, containing FY 2009 actual results is expected to be released in February 2010 on OMB's Web site. The portion of the President's Budget relating specifically to GSA can be found in the appendix of that report. Balances submitted to the U.S. Treasury constitute the basis for reporting of actual results in the President's Budget.

Differences between the CSBR and the President's Budget can be due to adjustments identified by GSA during the preparation of the CSBR, which occurred after the U.S. Treasury's deadline for reporting of fund balances and budget execution results. Such adjustments to the balances reported to the U.S. Treasury were made on the CSBR to more fully reflect the activity for the fiscal year ended, and for balances as of September 30, 2008.

The basis of the President's Budget and the CSBR is data reported to the U.S. Treasury on the Reports on Budget Execution and Budgetary Resources (SF 133s). However, as the CSBR is being developed, items may be identified that require adjustment to the data originally submitted on the SF 133s, which would create differences between the CSBR and the President's Budget. Generally, such items are identified after the deadlines for reporting to the U.S. Treasury, and reflect reclassifications of balances to report the proper status of obligations or budgetary resources.

For FY 2008, significant differences were due to adjustments recorded in the FBF, based on statistical sampling techniques which were not sufficiently detailed for SF 133 reporting. Also in the FBF, variations between OMB requirements for SF 133 reporting versus requirements for reporting of the CSBR created imbalances when comparing these reports.

Additional reconciling differences are caused by the presentation style of the President's Budget, which excludes Budgetary Resources, Obligations Incurred and Unobligated Balances in expired annual funds, as well as offsetting collections, which are required for reporting on the CSBR.

In some instances OMB may require additional changes to actual reported results for pending or known changes in legislation that affect future presentations. Small rounding differences also exist due to differences in display of the CSBR versus the President's Budget.

Below are two schedules highlighting the most significant comparable amounts reported in the FY 2008 CSBR and FY 2010 President's Budget (dollars in millions). The first schedule shows the total differences where the CSBR contains balances greater or (less) than amounts reported in the President's Budget by fund. Following this is a second schedule displaying the components of each difference at the combined level.

	FBF		ASF		OTHERS		TOTAL		
	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	CSBR	PRESIDENT'S BUDGET	DIFFERENCE
Budgetary Resources	$14,443	$ 14,132	$11,192	$ 11,191	$ 929	$ 882	**$26,564**	**$ 26,205**	**$ 359**
Obligations Incurred	9,735	9,529	9,935	9,935	719	715	**20,389**	**20,179**	**210**
Unobligated Balances	4,708	4,603	1,257	1,256	210	169	**6,175**	**6,028**	**147**
Balance of Obligations	1,100	1,204	(537)	(536)	183	180	**746**	**848**	**(102)**
Outlays	78	78	61	61	203	225	**342**	**364**	**(22)**

	BUDGETARY RESOURCES	OBLIGATIONS INCURRED	UNOBLIGATED BALANCE	OBLIGATED BALANCE	NET OUTLAYS
Combined Statement of Budgetary Resources	$ 26,564	$ 20,389	$ 6,175	$ 746	$ 342
Expired Funds, Not Reflected in the Budget	(49)	(3)	(46)	-	-
Amounts Cancelled in Other Funds, Not Reflected in the Budget	5	-	5	-	-
Differences in the FBF due to variances in reporting methods	(310)	(205)	(105)	105	-
Offsetting Receipts Not Reflected in the Budget	-	-	-	-	21
Rounding	(5)	(2)	(1)	(3)	1
Budget of the U.S. Government	$ 26,205	$ 20,179	$ 6,028	$ 848	$ 364

13. COMBINING STATEMENTS OF BUDGETARY RESOURCES

The CSBR presents GSA's budgetary results in accordance with reporting requirements prescribed in OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, which identifies budgetary resources available for spending, the status of those resources, and the relationship between obligated balances and outlays (see Note 12). In consolidated reporting by OMB and the U.S. Treasury, for the U.S. government as a whole, substantially all of GSA's program operations and operating results are categorized as general government functions.

Balances reported on the CSBR as Prior Year Recoveries generally reflect the downward adjustment of obligations that originated in prior fiscal years which have been cancelled or reduced in the current fiscal year. These balances may also include the effect of adjustments caused when an obligation is modified to change the applicable program, or budget activity. In managing and controlling spending in GSA's funds on a fund-by-fund basis, unique budget control levels (such as programs, budget activities or projects) are established. These levels are based on legislative limitations, OMB apportionment limitations, as well as management-defined allotment control limitations, in order to track and monitor amounts available for spending and obligations incurred against such amounts, as is required under the Antideficiency Act. When an obligation from a prior year is modified to change the budget control level of an obligation, a Prior Year Recovery would be credited to the level that was initially charged, and Obligations Incurred would be charged to the new level. While there may be no net change to total obligations in a particular fund, offsetting balances from the upward and downward adjustments would be reported on the corresponding lines of the CSBR.

The basis of the CSBR is data reported to the U.S. Treasury on the SF 133s. However, as the CSBR is being developed, items may be identified that require adjustment to the data originally submitted on the SF 133s. Generally, such items are identified after the deadlines for reporting to the U.S. Treasury, and reflect reclassifications of balances to reflect the proper status of obligations or budgetary resources. For FY 2008, significant differences between the CSBR and SF133 were due to the effect of adjustments made to the CSBR based on statistical samples used to validate balances reportable as Undelivered Orders and Delivered Orders in the FBF. Projections of such adjustments were based on extrapolations of aggregate amounts which could not readily be determined to the detailed levels that are required to accompany SF 133 reporting. This impacted the beginning balances used for the FY 2009 CSBR and the reporting of changes in those balances for the fiscal year.

As a result of these conditions, the following differences existed between the CSBR and SF133s of the FBF for FY 2009 due to increases (decreases) to the CSBR (dollars in millions):

Unobligated Balance, Net - Beginning	$	105
Prior Year Recoveries	$	111
Obligated Balance - Beginning	$	105

14. CONSOLIDATING STATEMENTS OF CHANGES IN NET POSITION

A. Cumulative Results of Operations

Cumulative results of operations for Revolving Funds include the net cost of operations since their inception, reduced by funds returned to the U.S. Treasury, by congressional rescissions, and by transfers to other federal agencies, in addition to balances representing invested capital. Invested capital includes amounts provided to fund certain GSA assets, principally land, buildings, construction in process, and equipment, as well as appropriated capital provided as the corpus of a fund (generally to meet operating working capital needs).

GSA's FBF, ASF, WCF and FCSF have legislative authority to retain portions of their cumulative results for specific purposes. The FBF retains cumulative results to finance future operations and construction, subject to appropriation by Congress. In the ASF, such cumulative results are retained to cover the cost of replacing the motor vehicle fleet and supply inventory as well as to provide financing for major systems acquisitions and improvements, contract conversion costs, major contingencies, and to maintain sufficient working capital. The WCF retains cumulative results to finance future systems improvements and certain operations. The FCSF retains cumulative results to finance future operations, subject to appropriation by Congress.

Cumulative Results of Operations on the Consolidating Balance Sheets include immaterial balances of earmarked funds as defined in FASAB SFFAS No. 27. As further discussed in Notes 1 and 2, earmarked balances are those reported in GSA's Special Funds, within the Other Funds display on the Consolidating Balance Sheets.

B. Unexpended Appropriations

Unexpended Appropriations consist of unobligated balances and undelivered orders, net of unfilled customer orders in funds that receive appropriations.

Undelivered orders are orders placed by GSA with vendors for goods and services that have not been received. Unfilled customer orders are reimbursable orders placed with GSA by other agencies, other GSA funds, or from the public, where GSA has yet to provide the good or service requested. At September 30, 2009 and 2008, balances reported as unexpended appropriations were as follows (dollars in millions):

	FBF	OTHER FUNDS	TOTAL GSA
2009			
Unobligated Balances:			
Available	$ 4,316	$ 31	$ 4,347
Unavailable	-	36	36
Undelivered Orders	1,332	80	1,412
Unfilled Customer Orders	-	(3)	(3)
Total Unexpended Appropriations	$ 5,648	$ 144	$ 5,792
2008			
Unobligated Balances:			
Available	$ -	$ 18	$ 18
Unavailable	182	36	218
Undelivered Orders	-	54	54
Unfilled Customer Orders	-	(10)	(10)
Total Unexpended Appropriations	$ 182	$ 98	$ 280

15. EMPLOYEE BENEFIT PLANS

A. Background

Although GSA funds a portion of pension benefits for its employees under the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), and makes the necessary payroll withholdings, GSA is not required to disclose the assets of the systems or the actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. Reporting such amounts is the direct responsibility of OPM. Reporting of health care benefits for retired employees is also the direct responsibility of OPM.

In accordance with FASAB SFFAS No. 5, GSA recognizes the normal cost of pension programs and the normal cost of other post-employment health and life insurance benefits, as defined in that standard, on the Consolidating Statements of Net Cost. While these costs will ultimately be funded out of direct appropriations made to OPM and do not require funding by GSA activities, they are an element of government-wide costs incurred as a result of GSA's operations.

B. Civil Service Retirement System

At the end of FY 2009, 22.4 percent (down from 25.6 percent in FY 2008) of GSA employees were covered by the CSRS, a defined benefit plan. Total GSA (employer) contributions (7.5 percent of base pay for law enforcement employees, and 7.0 percent for all others) to CSRS for all employees amounted to $20 million in both FYs 2009 and 2008.

C. Federal Employees Retirement System

On January 1, 1987, the FERS, a mixed system of defined benefit and defined contribution plans, went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, were automatically covered by FERS and Social Security while employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. As of September 30, 2009, 77.0 percent (up from 73.9 percent in FY 2008) of GSA's employees were covered under FERS. One of the primary differences between FERS and CSRS is that FERS offers automatic and matching contributions into the federal government's Thrift Savings Plan (TSP) for each employee. Under CSRS, employees can invest up to 10 percent of their base pay in the TSP. Employees under FERS can invest up to 15 percent of base pay, plus GSA will automatically contribute one percent of base pay and then match employee contributions up to an additional four percent of base pay. During FYs 2009 and 2008, GSA (employer) contributions to FERS (24.9 percent of base pay for law enforcement employees and 11.2 percent for all others) totaled $87 million and $79 million, respectively. Additional GSA contributions to the TSP totaled $33 million and $31 million in FYs 2009 and 2008, respectively.

D. Social Security System

GSA also makes matching contributions to the U.S. Social Security Administration (SSA) under the Federal Insurance Contributions Act (FICA). For employees covered by FERS, GSA contributed matching amounts of 6.2 percent of gross pay (up to $106,800 in calendar year 2009, and $102,000 in calendar year 2008) to SSA's Old-Age, Survivors, and Disability Insurance (OASDI) program in calendar year 2009. Additionally, GSA makes matching contributions for all employees of 1.45 percent of gross pay to the Medicare Hospital Insurance program in calendar year 2009. In FYs 2009 and 2008, 0.6 percent and 0.5 percent, respectively, of GSA's employees are covered exclusively by these programs. Payments to these programs in FYs 2009 and 2008, amounted to $64 million and $59 million, respectively.

E. Schedule of Unfunded Benefit Costs

Amounts recorded in FYs 2009 and 2008, in accordance with FASAB SFFAS No. 5 for imputed post-employment benefits were as follows (dollars in millions):

	PENSION BENEFITS	HEALTH/LIFE INSURANCE	TOTAL
2009			
FBF	**$ 12**	**$ 31**	**$ 43**
ASF	**10**	**17**	**27**
Other Funds	**7**	**12**	**19**
Total	**$ 29**	**$ 60**	**$ 89**
2008			
FBF	$ 13	$ 29	$ 42
ASF	11	16	27
Other Funds	7	11	18
Total	$ 31	$ 56	$ 87

16. RECONCILIATION OF NET COSTS OF OPERATIONS TO BUDGET

The recognition of earning reimbursable budgetary resources and spending budgetary resources on the CSBR generally has a direct or causal relationship to revenues and expenses recognized on the Consolidating Statements of Net Cost. The reconciliation schedules below bridge the gap between these sources and uses of budgetary resources with the operating results reported on the Consolidating Statements of Net Cost for the fiscal years ending on September 30, 2009 and 2008 (dollars in millions):

	FEDERAL BUILDINGS FUND		ACQUISITION SERVICES FUND		OTHER FUNDS		LESS: INTRA-GSA ELIMINATIONS		GSA CONSOLIDATED TOTALS	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
RESOURCES USED TO FINANCE ACTIVITIES										
Obligations Incurred	$ **11,635**	$ 9,735	$ **10,740**	$ 9,935	$ **1,047**	$ 719	$ **-**	$ -	$ **23,422**	$ 20,389
Less: Spending Authority From Offsetting Collections and Adjustments	**(10,681)**	(9,661)	**(10,780)**	(10,022)	**(511)**	(480)	**-**	-	**(21,972)**	(20,163)
Financing Imputed for Cost Subsidies	**66**	61	**49**	41	**31**	86	**40**	35	**106**	153
Other	**-**	7	**5**	(16)	**(4)**	(18)	**-**	-	**1**	(27)
Total Resources Used to Finance Activities	**1,020**	142	**14**	(62)	**563**	307	**40**	35	**1,557**	352
RESOURCES USED THAT ARE NOT PART OF THE NET COST OF OPERATIONS										
(Increase)/Decrease in Goods and Services Ordered But Not Yet Received	**(1,173)**	(153)	**(532)**	(139)	**(32)**	-	**-**	-	**(1,737)**	(292)
Increase/(Decrease) in Unfilled Customer Orders	**572**	210	**390**	168	**(10)**	(9)	**-**	-	**952**	369
Costs Capitalized on the Balance Sheet	**(1,963)**	(1,855)	**(830)**	(836)	**(280)**	(11)	**-**	-	**(3,073)**	(2,702)
Financing Sources Funding Prior Year Costs	**(21)**	(28)	**6**	3	**(156)**	(4)	**-**	-	**(171)**	(29)
Other	**1**	-	**(4)**	(9)	**151**	17	**-**	-	**148**	8
Total Resources Used That Are Not Part of the Net Cost of Operations	**(2,584)**	(1,826)	**(970)**	(813)	**(327)**	(7)	**-**	-	**(3,881)**	(2,646)
COSTS FINANCED BY RESOURCES RECEIVED IN PRIOR PERIODS										
Depreciation and Amortization	**1,152**	1,047	**457**	432	**13**	12	**-**	-	**1,622**	1,491
Net Book Value of Property Sold	**-**	4	**271**	281	**-**	-	**-**	-	**271**	285
Other	**9**	29	**-**	(1)	**-**	-	**-**	-	**9**	28
Total Costs Financed by Resources Received in Prior Periods	**1,161**	1,080	**728**	712	**13**	12	**-**	-	**1,902**	1,804
COSTS REQUIRING RESOURCES IN FUTURE PERIODS										
Unfunded Capitalized Costs	**-**	47	**-**	-	**-**	-	**-**	-	**-**	47
Unfunded Current Expenses	**33**	6	**(3)**	1	**-**	(22)	**-**	-	**30**	(15)
Total Costs Requiring Resources in Future Periods	**33**	53	**(3)**	1	**-**	(22)	**-**	-	**30**	32
Net (Revenues From) Cost of Operations	$ **(370)**	$ (551)	$ **(231)**	$ (162)	$ **249**	$ 290	$ **40**	$ 35	$ **(392)**	$ (458)

17. AMERICAN RECOVERY AND REINVESTMENT ACT

The American Recovery and Reinvestment Act (Recovery Act) of 2009 provided significant additional resources to GSA in FY 2009. Primarily, these resources come from direct appropriations provided in the Recovery Act, as well as an increased volume of reimbursable agreements as GSA programs provide procurement assistance to other organizations and agencies to help them expedite implementation of their Recovery Act responsibilities. While the execution of most activities follows standard federal accounting treatment, some of the activities required in the Recovery Act are unique. GSA's Recovery Act program to procure and distribute energy efficient motor vehicles to federal agencies involved procurement of new vehicles in exchange for an agency's old or less efficient vehicles. GSA's acquisitions of new vehicles are initially classified as Other Assets on the Consolidating Balance Sheets, and then are recognized as being transferred to the designated agencies when the exchange of vehicles occurs. The transfers-out are reflected on the Consolidating Statements of Net Position. When GSA sells the old vehicles, proceeds are retained as a reimbursement to the applicable fund, providing resources that may be used for additional vehicles. This activity, included in the Other Funds category on those statements, included new vehicles received totaling $268 million, of which $160 million of vehicles have been transferred to the designated agency recipients, and $108 million are held by GSA and included in Other Assets on the Consolidating Balance Sheets as of September, 30 2009.

REQUIRED SUPPLEMENTARY INFORMATION

DEFERRED MAINTENANCE

As of the end of FY 2009, GSA had no material amounts of deferred maintenance cost to report. GSA administers the Building Maintenance Management program that, on an ongoing basis, maintains the Building Class inventory in acceptable condition, as defined by GSA management. GSA utilizes a condition assessment survey methodology, applied at the overall portfolio level, for determining reportable levels of deferred maintenance. Under this methodology, GSA defines "acceptable condition" and "acceptable level of service" in terms of certain National Performance Measures, formulated under the provisions of the Government Performance and Results Act (GPRA) of 1993.

GSA expenses normal repair and maintenance costs as incurred. GSA has no substantive backlog of deferred maintenance costs as defined by FASAB SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, which is intended to report only maintenance items that would be expensed through the normal course of business. While maintenance projects are generally not deferred, the average building in the GSA inventory is 46 years old, and only 30 percent of these buildings have had extensive modernization due to funding limitations. This has led to a large inventory of capital R&A work items, of which approximately $5 billion has not yet been addressed by an ongoing PBS R&A project. This backlog is related to capitalizable improvements and modernization, and thus not considered deferred maintenance in accordance with SFFAS No. 6. For FY 2010, GSA has requested new obligational authority of approximately $496 million for the R&A program.

U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

NOV 13 2009

MEMORANDUM FOR PAUL F. PROUTY
ACTING ADMINISTRATOR (A)

KATHLEEN M. TURCO
CHIEF FINANCIAL OFFICER (B)

FROM: BRIAN D. MILLER
INSPECTOR GENERAL (J)

SUBJECT: Audit of the General Services Administration's Fiscal Year 2009 Financial Statements

The Office of the Inspector General (OIG) contracted with the independent public accounting (IPA) firm of KPMG LLP (KPMG) to audit the financial statements of the General Services Administration (GSA) as of September 30, 2009 and for the year then ended. The purpose of this audit was to provide a report on internal controls over financial reporting including safeguarding assets and compliance with laws and regulations. In addition, if necessary, to report instances in which GSA's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA).

The contract required that the audit be completed in accordance with the following guidance: U.S. generally accepted government auditing standards; Office of Management and Budget audit guidance; and the Government Accountability Office / Council of the Inspectors General on Integrity and Efficiency *Financial Audit Manual*. KPMG is responsible for the attached auditor's report dated November 12, 2009 and the conclusions expressed therein. The OIG does not express opinions on GSA's financial statements, internal controls, whether GSA's financial management systems substantially complied with FFMIA, or conclusions on compliance with laws and regulations.

In their audit of GSA, KPMG found:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.
- There were no material weaknesses in internal controls over financial reporting including safeguarding assets and compliance with laws and regulations.
- No instances identified in which the entity's financial management systems did not substantially comply with the requirements of FFMIA.

1800 F Street, NW, Washington, DC 20405-0002

KPMG also described the following significant matters:

- Weaknesses in the effectiveness of controls over GSA's accounting and business processes for budgetary transactions.
- Weaknesses relating to GSA's controls over the accounting and disclosures of rental income from non-cancellable occupancy agreements.
- Continued reliance on the worksheet adjustment process to produce financial statements and to ensure that account balances are not significantly misstated at fiscal year-end.
- Weaknesses identified in the information technology control environment.

The Office of Inspector General appreciates the courtesies and cooperation extended to KPMG and to our audit staff during the audit and review. If you, or your staff, have any questions, please contact Theodore R. Stehney, Assistant Inspector General for Auditing at (202) 501-0374.

Attachments

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Inspector General
United States General Services Administration

We have audited the consolidated totals in the accompanying consolidating balance sheet of the United States General Services Administration (GSA) as of September 30, 2009, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, and the combined totals in the combining statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended. We have also audited the individual balance sheets of the Federal Buildings Fund (FBF) and the Acquisition Services Fund (ASF) (hereinafter referred to as the "Funds") as of September 30, 2009 and the related individual statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as the Funds' "individual financial statements") for the year then ended.

The objective of our audit was to express opinions on the fair presentation of these consolidated financial statements and the Funds' individual financial statements. In connection with our fiscal year 2009 audit, we also considered GSA's internal control over financial reporting and tested GSA's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements and the Funds' individual financial statements. The accompanying consolidated financial statements and Funds' individual financial statements as of September 30, 2008, were audited by other auditors whose report thereon, dated November 14, 2008, expressed unqualified opinions on those consolidated and the Funds' individual financial statements.

Summary

As stated in the Opinions on the Financial Statements section of this report, we concluded that GSA's consolidated financial statements and the Funds' individual financial statements as of and for the year ended September 30, 2009, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. The accompanying consolidated financial statements and the Funds' individual financial statements as of September 30, 2008, were audited by other auditors whose report thereon, dated November 14, 2008, expressed unqualified opinions on those consolidated and the Funds' individual financial statements.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be significant deficiencies, as follows:

A. Controls over budgetary accounts and transactions

B. Controls over accounting and reporting of non-cancellable occupancy agreements

C. Controls over financial reporting

D. General and application controls over financial management systems

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control over Financial Reporting section of this report.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements,* as amended.

The following sections discuss our opinions on GSA's consolidated financial statements and the Funds' individual financial statements; our consideration of GSA's internal control over financial reporting; our tests of GSA's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinions on the Financial Statements

We have audited the consolidated totals in the accompanying consolidating balance sheet of the United States General Services Administration as of September 30, 2009, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, and combined totals in the combining statement of budgetary resources for the year then ended. We have also audited the individual balance sheets of the Funds as of September 30, 2009 and the related individual statements of net cost and changes in net position, and combined statements of budgetary resources for the year then ended. The accompanying consolidated financial statements and Funds' individual financial statements as of September 30, 2008, were audited by other auditors whose report thereon, dated November 14, 2008, expressed unqualified opinions on those consolidated and Funds' individual financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of GSA and the financial position of each of the Funds as of September 30, 2009 and the consolidated and individual Funds' net costs, changes in net position, and budgetary resources for the year then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis section and the Required Supplementary Information in the Financial section of *GSA's Fiscal Year 2009 Agency Financial Report* is not a required part of the consolidated and Funds' individual financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The information in the Other Accompanying Information section of *GSA's Fiscal Year 2009 Agency Financial Report* are presented for purposes of additional analysis and are not required as part of the consolidated and Funds' individual financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

KPMG

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

In our fiscal year 2009 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and that are described in Exhibit I. Exhibit II presents the status of the prior year material weakness and significant deficiency.

We noted certain additional matters that we have reported to management of GSA in a separate letter.

Compliance and Other Matters

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

The results of our tests of FFMIA disclosed no instances in which GSA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements of GSA and the Funds' individual financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to GSA.

Auditors' Responsibilities. Our responsibility is to express opinions on the fiscal year 2009 consolidated financial statements of GSA and the Funds' individual financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated and the Funds' individual financial statements are free of material misstatement.

An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GSA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated and the Funds' individual financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated and the Funds' individual financial statement presentation.

We believe that our audit provides a reasonable basis for our opinions.

In planning and performing our fiscal year 2009 audit, we considered GSA's internal control over financial reporting by obtaining an understanding of GSA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinions on the consolidated financial statements and the Funds' individual financial statements. We did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of GSA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of GSA's internal control over financial reporting.

As part of obtaining reasonable assurance about whether GSA's fiscal year 2009 consolidated financial statements and the Funds' individual financial statements are free of material misstatement, we performed tests of GSA's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts and the Funds' individual financial statements amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to GSA. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

GSA's responses to the findings identified in our audit are presented in Exhibit I. We did not audit GSA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the GSA's management, GSA's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2009

A. Controls over budgetary accounts and transactions

Budgetary accounts are a category of the general ledger accounts where transactions related to receipts, obligations, and disbursements of budgetary authority – the authority provided by law to incur financial obligations that will result in outlays, are recorded.

OMB Circular No. A-123, *Management's Responsibility for Internal Control*, sets forth requirements to develop control processes necessary to ensure that reliable and timely information is obtained, maintained, reported, and used for decision making. Additionally, OMB Circular No. A-127, *Federal Financial Systems*, provides a framework for Federal agencies to develop financial management systems that should generate reliable, timely, and consistent information necessary for meeting management's responsibilities, including the preparation of financial statements.

GSA policies require each of GSA's Services – Public Buildings Service (PBS) and Federal Acquisition Service (FAS) – to address the need to strengthen internal controls over budgetary reporting and to mitigate known weaknesses in the budgetary transaction level controls. Although GSA has improved compliance with its policies, GSA needs to continue improving the effectiveness of controls over its accounting and business processes to ensure that budgetary transactions are properly recorded, processed, and summarized. Specifically, we noted the following internal control weaknesses in GSA's financial management systems internal controls and financial reporting processes, many of which were reported in the fiscal year 2008 internal control report. In addition, GSA management's assessment of internal controls, performed as part of their OMB Circular No. A-123, Appendix A, reviews indicated similar issues as noted below.

1. Undelivered orders

Undelivered orders represent GSA's obligations that require the agency to make payments to the public or from one Government account to another. Under OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* requirements, obligations incurred must conform to applicable provisions of law, and agencies must be able to support the amounts reported by appropriate documentary evidence as defined by 31 U.S.C. 1501.

Of the 337 PBS obligations selected for test work, we noted 12 instances where contracts and modifications to contracts (including de-obligations) were not properly monitored, recorded accurately or timely, or entered into the financial management system. Additionally, we noted GSA did not provide proper documentation to support seven obligations recorded in the financial management system and recorded two obligations in the financial management system before the contracts were signed.

GSA overstated obligations between intra-GSA funds in four instances due to a system limitation for recording invoices received from other GSA components. Further, GSA did not consistently include the delivery date or period of performance for 26 of the 337 contracts reviewed, increasing the risk that management will not be able to determine the validity of its undelivered orders.

GSA did not effectively review undelivered orders because the ASF should have de-obligated approximately $29 million of invalid undelivered orders for one of ASF's programs. In addition, GSA entered into eight contracts for worldwide telecommunications and network services committing GSA to meet certain Minimum Revenue Guarantees (MRG) totaling approximately $535 million as of September 30, 2009. GSA needs to improve controls over the accounting and disclosures of MRG obligations to ensure that undelivered orders from these contracts are accurately recorded and disclosed. This deficiency resulted in GSA understating undelivered orders by approximately $15 million as of September 30, 2009, and initially omitting the disclosure of the MRG commitments in the notes to the FY 2009 financial statements. Ultimately, GSA adjusted its undelivered orders balance and disclosed its commitments related to MRG contracts in the notes to the consolidated financial statements.

As reported in the previous year, the lack of integrated financial and acquisition systems combined with the ineffective communication between the program office and the Budget/Financial Management Office within the regions continues to be the contributing factor for obligations not being accurately recorded in the financial management system. As a result, PBS Central Office management continued to rely on costly compensating processes and labor-intensive efforts to prepare reliable financial statements throughout the year and at fiscal year-end.

2. Unfilled customer orders

Unfilled customer orders represent the amount of goods and services to be furnished by GSA to other Federal government agencies. Unfilled customer orders provide budgetary resources to enter into new obligations and to liquidate them. GSA needs to improve the effectiveness of its controls over unfilled customer orders. During our testing of 257 unfilled customer orders for PBS, we noted 7 instances where the goods and services related to these orders had been completed and the remaining unfilled customer orders were not cancelled in a timely manner. As a result of our observations, GSA adjusted its unfilled customer orders balance.

3. Recovery of prior years' obligations

Recovery of prior years' obligations represents cancellations or downward adjustments of obligations incurred in prior fiscal years. As reported in the previous year, GSA's financial management system lacks the appropriate posting logic to properly account for recoveries of prior years' obligations in certain situations, requiring extensive manual reviews and adjustments for detecting and correcting errors rather than preventing them. Additionally, GSA incorrectly recorded recovery of prior years' obligations for undelivered orders that should have been de-obligated by one of ASF's programs. This deficiency resulted in GSA overstating its recoveries of prior years' obligations for one of its programs by approximately $29 million for the fiscal year ended September 30, 2009.

Recommendations

We recommend that GSA management continue to implement the following recommendations to improve controls over the accounting for budgetary transactions:

a. Undelivered Orders

1. Continue efforts in evaluating the design and implementation of system interfaces between the contracting system and the financial management system of record;
2. Until such interfaces are in place, continue monthly reconciliation efforts between the contracting system and the financial management system and ensure sufficient resources are available to perform the reconciliations in a timely and routine manner;
3. Perform procedures to ensure all obligations are captured and accurately recorded in the financial management system;

4. Assess the root causes of ineffective internal controls at the process level as part of the overall control deficiency assessment to help design an effective internal control environment that is suitable to GSA business processes;
5. Continue to improve the efficiency of transaction-level, process-driven controls to avoid overreliance on high-level mitigating controls over budgetary accounts and transactions;
6. Provide additional training to reinforce existing policies and procedures, which require all obligations be entered into financial management systems timely and prior to the receipt of any goods and/or services by GSA;
7. Improve communication with GSA's procurement operations and the regions to better facilitate response times by regions for award acceptance and receipt of goods and services;
8. Improve communications between GSA's Services to identify all intra-GSA billings and perform periodic reviews to ensure that cost transfers needed to capture billings at the proper line of accounting are processed accurately and in a timely manner;
9. Institute policies and procedures to ensure that a contract delivery date or period of performance is stated on all obligating documents before obligations are authorized, when appropriate; and
10. Strengthen the effectiveness of policies and procedures to ensure that commitments and contingencies regarding MRG obligations are properly accounted for and disclosed in the financial statements.

b. Unfilled Customer Orders

1. Continue to perform periodic reviews of outstanding unfilled customer orders to ensure that balances reported in the financial statements are valid and accurate; and

2. Educate the regions on the importance of having valid unfilled customer orders in the financial statements and the need to properly account for unfilled customer orders by closing all orders in a timely manner.

c. Recovery of prior years obligations

1. Until the posting logic to capture recoveries from prior years' obligations is adequately addressed in the financial management system, GSA needs to continue to rely on its periodic reviews of the recovery of prior year obligation balances to ensure that balances reported in the financial statements are valid and accurate.

Management Response

While the GSA budgetary issues are appreciable, we are encouraged by the progress made in addressing these issues in fiscal year 2009 as supported by the removal of last year's Material Weakness and our 52 percent reduction in manual adjustments (please see our response below to the significant deficiency *Controls over financial* reporting for additional information). Despite these improvements, we will continue to consider how best to strengthen the effectiveness of controls currently in place as well as determine where additional or revised controls may be necessary. In addition, we will review previous corrective action plans, review current year recommendations, and draft revised corrective action plans to further improve our reporting, system, and operational controls.

The Office of the Chief Financial Officer is working in partnership with the business and Office of the Chief Information Officer staffs across GSA to ensure that we continue to implement an integrated financial management system for use by program offices to promote consistency and reliability of budgetary and financial information.

B. Controls over accounting and reporting of non-cancellable occupancy agreements

Substantially all leased space maintained by GSA is sublet to other Federal agencies at rental rates to recover GSA's costs of that space. GSA reported rental income under subleasing agreements of approximately $5.1 billion for fiscal year 2009. Within its occupancy agreement portfolio, GSA maintains approximately 1,500 non-cancellable occupancy agreements with customer Federal agencies.

GSA needs to improve controls over the accounting and disclosure of its non-cancellable occupancy agreements to ensure rental revenue for these types of arrangements are properly recorded, summarized, and disclosed in the financial statements, in accordance with applicable accounting standards. Specifically, GSA had not recognized rental revenues on a straight-line basis for certain non-cancellable occupancy agreements, where step rents or free rents were included in the lease agreements, as required by U.S. generally accepted accounting principles (GAAP). These deficiencies resulted in GSA understating its assets by approximately $27 million as of September 30, 2009. In addition, GSA had initially omitted disclosures regarding the future projected receipts as required by OMB Circular No. A-136, *Financial Reporting Requirements* and GAAP for a total amount of approximately $3.6 billion. As a result of our observations, GSA analyzed, adjusted, and disclosed its future rental revenues from non-cancellable occupancy agreements in the notes to the consolidated financial statements.

Recommendations

We recommend GSA management implement the following recommendations to improve controls over the accounting and reporting of rental income from non-cancellable occupancy agreements:

1. Develop policies and procedures to evaluate the accounting and disclosure requirements of all non-cancellable occupancy agreements at the inception of each agreement; and

2. Establish policies and procedures requiring a thorough review of all the business policies periodically to determine the changes in the business operations, which may require different accounting treatment. This would ensure that the financial statements and the related disclosures are prepared in conformity with GAAP.

Management Response

Management acknowledges that applicable accounting standards require treatment such that the economic substance of these agreements prevails over the legal form. Therefore, PBS agrees with the auditors' findings and recommendations regarding the need to improve the internal controls over the accounting and disclosure of non-cancellable occupancy agreements to ensure rental revenue for the agreements is properly recorded, summarized, and disclosed in accordance with applicable accounting standards. PBS has placed additional financial management resources over the leasing area in fiscal year 2010 to ensure appropriate accounting entries are made and accurately presented, including the development of a footnote disclosure for inclusion on our financial statements.

C. Controls over financial reporting

Throughout fiscal year 2009, the GSA Office of the Chief Financial Officer (OCFO) utilized the "Worksheet Adjustment" process within the financial reporting process to adjust its financial statements to ensure they were prepared in accordance with GAAP. Although GSA has made improvements to its business processes in the second half of the fiscal year 2009 to reduce the volume and dollar amount of top-sided adjusting entries, GSA continued to rely on the worksheet adjustment process to produce its financial statements and to ensure that account balances were not significantly misstated at fiscal year-end.

As of September 30, 2009, GSA recorded approximately 264 top-side adjustments, each representing multiple accounting transactions, with an aggregate value of approximately $2.6 billion. These top-side adjustments can be classified into the following key areas:

- Adjustments needed to establish budgetary balances for internal and external reporting purposes;
- Adjustments required for bringing into balance budgetary accounts based on proprietary activity;
- Adjustments from reconciliation procedures of subsidiary systems to the general ledger performed after the books are closed and to record data or transactions that were not processed in time for month-end closing;
- Adjustments needed to capture period-end accruals of income and expenses, reclassifications for presentation purposes, and elimination entries; and
- Adjustments needed to account for the reversing effect of transactions recorded in the general ledger in the current period but were reported as top-sided adjustments in the previous period.

OMB Circular No. A-127, *Federal Financial Systems*, Section 7(c), *Application of the U.S. Government Standard General Ledger at the Transaction Level* states that financial events shall be recorded by agencies in the financial management system applying the requirements of the U.S. Government Standard General Ledger (SGL) at the transaction level. Application of the SGL at the transaction level means that the financial management systems will process transactions following the definitions and defined uses of the general ledger accounts as described in the SGL.

The large volume and dollar values of worksheet adjustments increase the risk of errors and potential misreporting of financial information as the adjustments take place outside of the financial management system and the associated control environment. The worksheet adjustment spreadsheets are prepared through a manual-intensive process by various teams within GSA and it has a pervasive effect over control activities and processes throughout the organization.

Recommendations

We recommend that GSA management continue to implement the following recommendations to reduce the volume and amount of top-side worksheet adjustments needed to produce its financial statements and to ensure that account balances are not significantly misstated:

1. Implement a process to reduce the number of worksheet adjustments and ensure these adjustments are recorded in the financial systems at the transaction level to minimize the number of top-side adjustments at year-end;
2. Investigate the root causes of each type of worksheet adjustment used in the financial reporting process;

3. Utilize the OCFO to serve as the primary coordinator of the involvement of Regional and Program areas, whose involvement and full support is vital for an effective internal control structure;
4. Implement an integrated financial management system for use by program offices to promote consistency and reliability of financial information; and
5. Fully utilize the functionalities of the financial management system of record to perform complete budgetary transaction processing and financial reporting in compliance with Federal financial reporting requirements.

Management Response

The fiscal year 2009 4th quarter adjustments of $2.6 billion represent a 52 percent reduction from the fiscal year 2008 4th quarter adjustments of $5.5 billion. In addition, over 50 percent of the fiscal year 2009 adjustments ($1.4 billion) were for normal reporting purposes such as intra-fund eliminations, reclassifications within standard general ledger accounts, accruals, and internal reporting changes with no financial statement impact. We would also like to note that these adjustments are the result of GSA's internal control structure and represent instances where GSA internal controls detected and prevented misstatements in our financial reports. Furthermore, we acknowledge that less worksheet adjustments reflect a higher degree of financial system integrity. As such, we will continue to pursue reducing our dependence on worksheet adjustments for accurate financial information.

D. General and application controls over financial management systems

GSA did not have adequate information technology controls to protect its financial management systems as required by OMB Circular No. A-130, *Management of Federal Information Resources*. These conditions could affect GSA's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources.

During fiscal year 2009, we noted improvements in GSA applications and general control. GSA's Office of the Chief Information Officer (OCIO) put in place a corrective action plan to address the pervasive weaknesses identified in prior years' audit findings from an agency-wide root-cause approach. However, GSA needs to continue improving the security and general controls over its financial information systems, as discussed below:

1. Access controls and segregation of responsibilities

Access controls protect computer resources from unauthorized modifications, disclosures, and loss. However, of the 12 systems selected for test work, GSA did not fully establish controls to prevent and detect unauthorized access for 1 system; and did not consistently ensure accounts for separate users are removed in a timely manner and inactive accounts were disabled for 3 systems. In addition, GSA did not implement configuration settings to its most restrictive settings to protect systems and data for eight systems. Furthermore, GSA does not have a process in place to develop and maintain a comprehensive inventory of systems; did not maintain a unified and updated listing of all of the roles for the general ledger and the specific rights and privileges assigned to a user. Finally, GSA did not fully establish monitoring controls over application and system activity logs and violation reports of user actions for six systems.

Lack of controls to prevent the assignment of access to incompatible functions within and between systems exposes GSA to the risk that certain users may be assigned the ability to perform multiple critical system transactions. GSA did not periodically review segregation of responsibilities to ensure conflicting access rights are not granted for three systems. In addition, GSA did not consistently ensure that developers were restricted from accessing the production environment for one system. Furthermore, GSA did not consistently ensure users' access was restricted from performing incompatible functions for one system.

2. System change management

System change management protects computer resources from unauthorized modifications, disclosures, or loss. GSA did not develop and implement a process for ensuring version control of software changes for one system. In addition, GSA did not consistently ensure that change documentation of authorization for changes, testing of changes and approval for change implementation was documented for three of the 12 systems selected for test work.

Recommendations

We recommend that the GSA OCIO and OCFO continue improving controls over its financial information systems to ensure adequate security and protection of the information systems, as follows:

1. Develop and implement a process to review and document the review of audit logs related to financial system access and processing;
2. Ensure policies to approve and remove access are consistently adhered to across information systems;
3. Maintain a unified updated listing of all of the roles for the general ledger and the specific rights and privileges assigned to a user;
4. Improve upon existing procedures to define events to be monitored over application and system activity logs and violation reports of user actions;
5. Ensure policies to recertify users are consistently adhered to across information systems; and
6. Ensure changes for systems are documented so that evidence of authorization is maintained for changes, testing of changes and approval for change implementation.

Management Response

During fiscal year 2009, GSA made substantial progress in addressing the IT significant deficiency noted during last year's audit. Specifically, we developed and documented a standard set of access control requirements for key financial management systems, identified key role conflicts for three financial systems, have begun to correct these conflicts, and developed standard operating procedures to improve system logging and monitoring capabilities. Notwithstanding this progress, we acknowledge that more work remains. Accordingly, we have initiated a Lean Six Sigma (LSS) effort to revisit existing segregation of duty policies and resolve existing access conflicts, publish current user role definitions on our website for clarity, train functional coordinators and information system security officials to review and monitor existing access levels as well as access requests for conflicts, and develop standard operating procedures for monitoring user-related system activities.

In addition, this LSS group will clarify current system role assignments and revise current process flows where needed to create a more effective procurement-related payment process, improve user role assignments, expedite transactional processing, and shorten system access approval time.

Fiscal Year 2008 Conditions	Status of Fiscal Year 2008 Conditions
Material Weakness	
Financial Management Systems, Internal Controls, and Financial Reporting Need Improvement	These conditions have been partially remediated and are reported in fiscal year 2009. See findings A and C.
Significant Deficiency	
Strengthen Segregation of Duties, Account Management, and Activity Monitoring Controls	This condition has been partially remediated and it is reported in fiscal year 2009. See finding D.
Non-Compliance	
Non-compliance with FFMIA	This condition has been corrected.

Other Accompanying Information

U.S. GENERAL SERVICES ADMINISTRATION
Office of Inspector General

OCT 21 2009

MEMORANDUM FOR PAUL F. PROUTY
ACTING ADMINISTRATOR (A)

FROM: BRIAN D. MILLER
INSPECTOR GENERAL (J)

SUBJECT: GSA's Major Challenges

Attached is a copy of our office's updated assessment of the major challenges currently facing GSA. The Reports Consolidation Act of 2000, Public Law 106-531, requires that each Office of Inspector General (OIG) prepare a statement that summarizes what the Inspector General considers to be the most significant management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges.

We are hereby providing you with our assessment to afford you the opportunity to review and prepare any comments you wish to append.

If you have any questions or wish to discuss this, please call me at 202-501-0450. If your staff needs any additional information, they may contact Theodore R. Stehney, Assistant Inspector General for Auditing, at 202-501-0374.

Attachment

1800 F Street, NW, Washington, DC 20405-0002

Office of Inspector General's Assessment of GSA's Major Management Challenges

October 2009

As required by the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) regularly identifies what it considers the U.S. General Services Administration's (GSA) most significant management challenges. This effort highlights the Agency's most demanding issue areas. Some challenges represent an inherent risk to GSA's mission or programs and not necessarily a deficiency in performance. As such, GSA management may not be able to eliminate some challenges, but should continue to take steps to mitigate these challenges.

The following represent the most serious challenges facing GSA: Acquisition Programs, Financial Reporting, Information Technology, Human Capital, Protection of Federal Facilities and Personnel and the Federal Buildings Fund (FBF).

Acquisition Programs

We have identified the following two issues: (1) pricing and compliance under the Multiple Award Schedules (MAS) program; and (2) the timely transition from the FTS2001 and Crossover contracts to the Networx contracts.

ISSUE: Challenges exist in the Multiple Awards Schedules program pertaining to pricing and compliance. Under the MAS program, GSA's Federal Acquisition Service (FAS) establishes long-term government-wide contracts with vendors to provide federal agencies access to over 11 million commercial supplies and services. GSA negotiates the contracts with the objective of achieving the vendors' most favored customer (MFC) pricing/discounts under similar conditions. Federal agencies then simply order supplies or services from the schedules at the pre-negotiated prices and pay the contractors directly for their purchases. Schedule sales for FY 2008 totaled approximately $38 billion. It is anticipated that with the enactment of the American Recovery and Reinvestment Act (Recovery Act) of 2009, additional sales may be generated through the MAS program.

Pricing

The OIG is concerned that, with the growth of the MAS program, the emphasis of certain program fundamentals, including pricing objectives and other pricing tools, has diminished. These fundamentals, which are set by regulation, include the mandate to seek the offeror's best price. These fundamentals, which are set by regulation, include the mandate to seek the offeror's best price (MFC pricing), the requirement to perform meaningful price and cost analysis when awarding or extending contracts, and the use of field pricing assistance to assist in negotiating contracts. MFC pricing ensures that MAS contract pricing harnesses the federal government's collective buying power for pricing purposes. Price analysis is the key substantive step a contracting officer performs for the purpose of arriving at fair and reasonable prices. We have reported that contracting officials were not consistently negotiating MFC prices; many MAS contract extensions were accomplished without adequate price analysis; and available tools were not being used effectively to negotiate better MAS prices. Additionally, we have found that vendors can go to great lengths to misrepresent their actual selling prices.

Pre-award reviews are the main tool by which a contracting officer can be assured that a vendor's pricing is appropriate. Such reviews also provide contracting officers with additional details regarding a vendor's pricing and sales practices in anticipation of negotiations. During FY 2007 and FY 2008, the OIG found flaws in many of the proposals audited that amounted to over $1.4 billion in proposed contract price reductions and tens of millions of dollars in recoveries.

In addition, the broad scope of the Federal Acquisition Regulation (FAR) definition of a commercial item affects issues with pricing. Under the current definition, a commercial item is any item and many services “of a type” customarily used by the general public. Thus, the current FAR definition of a commercial item does not require a vendor to have any commercial, competitive sales of a product or service. The MAS program operates under the premise that: (1) GSA vendors would routinely sell their commercial products and services to the general public in a competitive open market; (2) this competitive process would establish “market prices” (fair and reasonable prices); and (3) GSA contracting officers could use market prices as a starting point in negotiations to establish a government price that was equal to a like buyer in the private sector. Based on this expanded definition of a commercial item, it has been our experience that many MAS vendors have only federal government sales. There are also vendors who create a corporate structure to organizationally segregate their commercial business from their government business. In addition, we have found that, although a commercial market exists for a vendor’s services, its commercial contracts are typically awarded on a firm fixed price basis, while its GSA schedule clients have been mainly doing business on a time and materials basis. All of these scenarios present difficult challenges in terms of comparability, and impact a contracting officer’s ability to perform valid price analysis.

Contract Compliance

The OIG is concerned that MAS vendors are not fully in compliance with the terms and conditions of their contracts. We have previously reported to the MAS Advisory Panel that 70 percent of Commercial Sales Practice data provided by vendors was not current, accurate, or complete. In addition, GSA was not offered MFC pricing, the target of all contract negotiations, a majority of the time. To provide an example, in April 2009, a MAS vendor agreed to pay the United States government $128 million to resolve alleged false claims and contract fraud. This vendor knowingly failed to comply with the price reduction clauses of its GSA contract by failing to disclose to GSA discounts the vendor gave to its commercial customers, which were higher than the discounts that had been disclosed to GSA.

AGENCY ACTIONS: There is an on-going program for pre-negotiation clearances to ensure the quality of its most significant contract negotiations. In this process, the contracting officer presents a summary of his or her actions in developing negotiation objectives including market research, contractor responsibilities, and price analysis to a panel for evaluation. Also, there are several initiatives that may have an effect on the program in FY 2010. FAS established an office in September 2008 to develop and implement consistent acquisition policy and guidance for the MAS program that is currently housed under several different offices within FAS. In addition, FAS is using Lean Six Sigma in evaluating its contracting process, emphasizing process efficiency and effectiveness.

ISSUE: GSA needs to ensure agencies transition to Networx in a timely manner. The transition of government agencies from the FTS2001 and Crossover contracts to the Networx contracts, Universal and Enterprise, is one of the largest telecommunications services transition ever undertaken by the federal government. It will involve more than 135 agencies, more than 50 services and thousands of voice and data circuits. The Networx contracts are valued at $68.2 billion, divided between Networx Universal and Networx Enterprise.

In May 2009 meetings, management stated they are on target with regard to budgeting; however, progress with accelerating agencies’ transition still needs to be made. As of August 2009, GSA officials stated that over half of the contractor selections had been made. The transition will require coordination between agencies, GSA, and a host of telecommunications contractors.

AGENCY ACTIONS: In an effort to decrease the immediate transition burden on agencies migrating from the existing FTS2001 contracts, GSA awarded bridge contracts that provide for continued service beyond the expiration of FTS2001 in 2006 and 2007. The bridge/Crossover contracts are set to expire in May and June 2010; however, continuity-of-service contract provisions allow the contracts to be extended until May/June 2011.

Financial Reporting

ISSUE: Financial management systems, internal controls, and financial reporting need improvement. Each year since FY 2004, the Independent Public Accountant has reported deficiencies surrounding GSA's financial management systems, its processes and substantial transaction errors resulting from insufficient controls related to reporting of budgetary accounts and balances. The Independent Public Accountant emphasized that the root cause of these weaknesses primarily points to the Agency's business feeder systems and management's reliance on costly compensating processes. However, GSA systems, including its financial system of record, Pegasys, continue to have deficiencies in interoperability and interfaces. As a consequence, GSA management continues to rely heavily on manual workarounds and significant adjusting entries to prepare the financial statements and related note disclosures. Specifically, one of GSA's major feeder systems, Comprizon, does not interface with Pegasys or any other financial management system; therefore, contracts entered into the feeder system must be manually entered into Pegasys and cumbersome worksheet adjustments need to be made to prepare the financial statements and related note disclosures.

AGENCY ACTIONS: Management is continuing its efforts to work with the regions to instruct them on the importance of having valid transactions for the programs as well as for financial reporting purposes. Also, the Office of the Chief Financial Officer (OCFO) is continuing to instruct the regions on how to properly account for contracts as well as timely recording of obligations.

The OCFO is requiring regional and program offices to proactively check the status of outstanding budgetary transactions and take appropriate actions as necessary. In addition, the OCFO is taking steps to help the regions and program offices identify high risk populations for self review of potential invalid transactions.

Information Technology

We have identified three issues in regard to Information Technology (IT): the need for improved planning, development and implementation of IT systems; the need for improvements in GSA's IT Security Program; and, the need for increased contract oversight and coordination of managed service offerings and lines of business.

ISSUE: Improved planning, development and implementation of IT systems are needed to support GSA missions, programs and implementation of the Recovery Act. Planning, developing, and implementing cost-effective, customer-focused, and performance-based IT systems in support of GSA's strategic business goals and various missions are keystones to good business. The Chief Information Officer (CIO) has stated that providing effective and reliable IT systems and solutions and providing balanced stewardship of information and technology are key Agency-wide IT strategic goals that also relate to supporting GSA's implementation of the Recovery Act. GSA management faces challenges in meeting these two goals. For example, GSA systems often do not meet standards for interoperability and interfaces, resulting in duplication of business processes, cost inefficiencies and customer dissatisfaction. Challenges in reengineering business processes across the Agency and implementing an enterprise architecture have led to multiple, duplicative systems that are costly to maintain and operate. As an example, common services and integrated information systems have not been developed in support of GSA's acquisition business processes. Duplicative business processes and systems will make it difficult for the Agency to track and report management information needed to make strategic system decisions and support the Recovery Act.

AGENCY ACTIONS:

- To guide IT investment decisions and communicate long-term goals and objectives, the GSA CIO has developed an IT Strategic Business Plan covering FY 2010 – 2012. The plan is intended to enable the planning, decision making, acquisition and execution of IT services by, individual Services/Staff Offices and business-level program areas.

- As detailed in CIO Order 2130.1, "GSA Information Technology Governance," November 26, 2008, the GSA CIO has updated agency-wide governance processes for IT to reduce inconsistency and redundancies in responsibilities and processes for IT management. Specifically, GSA has established an IT Executive Council (ITEC) that reviews and makes decisions and recommendations on the strategic use of IT. The ITEC oversees five standing committees in GSA, including one for enterprise applications, enterprise architecture, information security, portfolio management and enterprise infrastructure.

- GSA Services and Staff Offices have requested funding for new IT programs and initiatives, as part of the Agency's FY 2010 Budget. These new IT programs and initiatives seek to better manage GSA's legacy systems environment. Examples are:

    - GSA requested approximately $49 million for the acquisition and development of a new BAAR solution, to be incrementally phased in by business lines. This is expected to reduce the need for manual reconciliation and consolidate multiple financial applications within GSA's financial management enterprise architecture.

    - Public Buildings Service (PBS), E-Gov initiatives. The PBS CIO requested funds in the amount of $6.5 million; $3.56 million for the System for Tracking and Administering Real Property (STAR) replacement; $1.5 million for a Pegasys-Comprizon interface; and $1.5 million to implement the BAAR solution.

    - FAS Information Technology Services Fund. FAS requested funding to replace FSS-19 to mitigate risks with this legacy system, as the U.S. Department of Defense (DoD) is in the process of updating its systems and FAS must keep pace in order to continue serving DoD. Also, funding was requested for the Regional Telecommunications program, which will be undertaking a significant transformation by moving from owned private branch exchange (PBX) switches to common infrastructure, such as voice over internet protocol or broadband technologies.

ISSUE: Improvements are needed in GSA's IT Security Program to protect sensitive Agency information and address emerging risks. Improved processes and controls to address evolving IT security risks and requirements established with the Federal Information Security Management Act of 2002 (FISMA) pose long-term challenges for GSA leadership. Ensuring that system security officials comprehensively evaluate risks and implement necessary controls for GSA IT systems through the Agency's certification and accreditation process remains a key challenge for GSA's IT Security program. Specifically, the certification and accreditation process often is not providing senior Agency management with the information they need to make risk-based decisions about the IT systems for which they are responsible. Further, programmatic improvements are needed to ensure the integration of critical information security activities into the systems development processes. For example, coordination, collaboration and accountability across the Agency is needed to address high priority risk areas related to (1) access controls, (2) oversight of contractor supported systems and (3) controls for sensitive data. This would help to reduce costly security enhancements/modifications that need to be made to GSA systems to address security control weaknesses once implementation has occurred. At the same time GSA is seeking to improve its security program, it is also pursuing innovative solutions to other issues that introduce new risks. GSA is evaluating the use of cloud computing technologies in the Agency and recently launched an online storefront offering cloud computing services to federal agencies. With “cloud computing”, traditional system boundaries and definitions may no longer apply. Moreover, existing policy frameworks and governance processes may need to be strengthened to ensure that sensitive information is secured and the privacy of American citizens is maintained in the “cloud.”

Several key systems at GSA are provided under managed service offerings, so adequate oversight from GSA’s IT Security program is critical to ensure that security requirements are met for these systems. In addition to using these systems for internal agency needs, GSA provides these systems to several other federal organizations. As such, ensuring that roles and responsibilities are clearly established for meeting security requirements is a key risk area that GSA’s IT Security program should address. A risk-based approach that ensures continuous monitoring processes are implemented and that in-house and contractor operated systems and services meet federal and Agency security requirements is needed. Development and implementation of adequate management, operational and technical controls to: (1) prevent the loss of or unauthorized access to, sensitive data; (2) detect unauthorized disclosures or IT security breaches; and (3) recover or restore systems and data remains a significant challenge for GSA’s Privacy and IT Security programs.

AGENCY ACTIONS:

- GSA has formed the Information Assurance Committee (IAC) to oversee the development and implementation of the Agency’s security policy. The IAC is chaired by the Senior Agency Information Security Official and the Chief Privacy Officer. Further, a subcommittee to address weaknesses in access controls across the Agency has been established under the IAC. This subcommittee includes representatives from GSA Services, Staff Offices and Regions.

- In July 2009, the GSA CIO updated agency-wide IT Security Policy to address changing risks and requirements for GSA systems.

- In response to audit findings and other identified risks, the GSA CIO updated several guides covering such areas as certification and accreditation, software configuration, and rules of behavior.

- GSA piloted the use of HSPD-12 cards for access to information systems in several regions. GSA plans to utilize HSPD-12 cards to improve access controls for Agency information systems.

- To make Agency operations more transparent, collaborative and participative, GSA has been implementing social media technologies, such as blogs and wikis. The GSA CIO recently issued policy and procedures for security of these emerging technologies.

- GSA is leading efforts to assess the use of cloud computing technologies for the government. As part of this effort, GSA is working on developing security requirements and has issued a Request for Information to the vendor community.

ISSUE: Increased contract oversight and coordination is needed for successful implementation of Managed Service Offerings and Lines of Business. As a managing partner for five E-Gov initiatives: Data.gov, E-Travel, GovSales.gov, Integrated Acquisition Environment and USA Services: and two lines of business, IT Infrastructure and Financial Management. GSA plays a leading role in improving IT for the federal government, citizens and businesses. As such, GSA is responsible for ensuring that these initiatives are cost effective, streamline government operations, increase efficiency and meet the needs of a diverse customer base. Success for GSA as a managing partner for these initiatives will require innovation and the ability to respond quickly to changing customer requirements and risks. A key risk for managed service offerings and lines of business is contract oversight to ensure that systems supporting these initiatives are developed, maintained, and operated in accordance with federal policies, standards and guidelines. Further, ensuring system usability and satisfaction remains a challenge to ensuring broad adoption of these initiatives.

AGENCY ACTIONS:

- As part of the FY 2010 Budget, GSA has requested $33 million for the Electronic Government Fund to: (1) address the areas of open government and transparency; (2) enhance citizen participation in government; (3) realize potential savings through alternative approaches to IT infrastructure; and (4) advance the use of innovative technology, including increasing agency use of collaborative technologies across the government.

- The IT Infrastructure Line of Business team is working with the Office of Management and Budget's (OMB) E-Gov and Budget offices to ensure consistency with related federal IT programs such as the Federal Enterprise Architecture Program Office, Strategic Sourcing and the Information Systems Security Line of Business. Additionally, this team is supporting government-wide cloud computing initiatives. As part of this effort, the team will assist with: developing a strategic approach for the federal cloud(s); addressing barriers and compliance issues; developing mechanisms to purchase infrastructure as a service; identifying and providing access to standard collaboration and communication tools, and allowing agencies to acquire cloud services as a commodity.

- The Financial Management Line of Business (FMLoB) team has published a final business process standards document for funds management, payment management and receivable management. The team is also working on several key initiatives including, updating, the Core Financial System Requirements and the Common Government-wide Accounting Classification (CGAC) structure to reflect the International Organization for Standardization (ISO) 9000 naming standards.

HUMAN CAPITAL

ISSUE: GSA faces challenges maintaining the workforce for future years. There are two components to the human capital management challenge facing GSA: succession management strategies to mitigate the risk of projected retirements of the leadership cadre and the critical gaps in acquisition workforce, particularly with the implementation of the Recovery Act.

Succession Management Strategies

Since 1998, the OIG has consistently cited human capital management as one of the major management challenges facing GSA that, if not addressed, will result in a loss of both knowledge and critical skills. In 2001, Government Accountability Office (GAO) added this to its high-risk series of issues facing federal agencies, and it continues as an issue on the January 2009 list.

As with many federal agencies, a large portion of GSA's acquisition staff has reached, or is nearing, retirement age. Workforce data indicates that approximately 33 percent of GSA acquisition employees will be eligible to retire within the next five years and approximately 40 percent will be eligible to retire within the next seven years. In addition, GSA's attrition rate stands at around eight percent, which is similar to that of the overall government. As a result, GSA needs to continue to attract new talent to fill the vacated positions. However, as noted by GAO, the current federal hiring process is often an impediment to the very customers it is designed to serve, in that it makes it difficult for agencies and managers to obtain the right people with the right skills, and applicants may become discouraged from entering public service because of the complex and lengthy procedures. Therefore, it is critical that GSA take action to: set the Agency apart as an employer of choice; improve the hiring process with regard to how long it takes to fill a position; and improve both the manager and the applicant experience.

Critical Gaps in the Acquisition Workforce

Another area of concern is the retention of a skilled acquisition workforce. Although the percentage of hires has increased, there remains a significant shortage of skilled acquisition professionals. GSA's acquisition workforce is integral to achieving its mission of leveraging the buying power of the federal government to acquire best value for taxpayers and our federal customers. Particularly with the implementation of the Recovery Act, GSA needs to ensure that there is a highly skilled cadre of acquisition professionals who can successfully function in a variety of acquisition positions. GSA's retirement projections, along with the current hiring and retention of skilled acquisition professionals, emphasize the need for an expedited recruitment process, succession planning and leadership development.

AGENCY ACTIONS: The U.S. Office of Personnel Management (OPM) and OMB partnered and launched a federal hiring reform initiative to address the need to improve the federal hiring process. In June 2009, OPM and OMB requested that agencies take steps to reform their hiring process. In direct response to the OPM and OMB mandate, GSA established a hiring reform SWAT team comprised of 20 hiring managers and nine Human Resources (HR) officials to work collaboratively as a Lean Hiring Team. This team will develop a process that results in hiring the absolute best candidates in the least amount of time and meeting all of the OPM action items.

GSA's "Lean Hiring" initiative focuses on specific actions that can be taken to improve the timeliness and quality of GSA's hiring process. Through "Lean Hiring", the Office of the Chief Human Capital Officer (OCHCO) is taking a critical look at HR service delivery in five key areas: policy, planning, systems, structure and processes. "Lean Hiring" will also help GSA develop a more systematic workforce planning process. In addition to "Lean Hiring", OCHCO also developed a succession plan that outlines strategies to address recruitment, retention and development of the acquisition workforce. The objective of the plan is to provide a clear and achievable strategy for employees to obtain the necessary skills to successfully advance to higher levels of authority in the acquisition field.

As of September 15, 2009, the regional General Management & Administration (GM&A) functions were transferred to Central Office. As part of this GM&A realignment, HR functions will be transferred from regions to OCHCO and a servicing HR unit will be established in each region.

PROTECTION OF FEDERAL FACILITIES AND PERSONNEL

ISSUE: Challenges exist concerning efforts to safeguard federal facility assets and provide a secure work environment for federal employees. Providing a safe, healthy and secure environment for over one million workers and visitors to approximately 8,600 owned and leased federal facilities nationwide is a major multifaceted responsibility of GSA. Increased risks from terrorism have greatly expanded the range of vulnerabilities traditionally faced by building operations personnel. Although the Federal Protective Service (FPS) was transferred from GSA's PBS to the U.S. Department of Homeland Security (DHS) in March of 2003, the Agency has a continual need to closely interact with security personnel due to GSA's mission of housing federal agencies. FPS is the primary agency responsible for providing protection to GSA buildings and facilities. Ensuring that federal employees have a secure work environment and that building assets are adequately safeguarded must remain a primary consideration for GSA.

GSA/PBS and DHS/FPS operate under a Memorandum of Agreement (MOA) for obtaining services, such as basic security for buildings, contract guards, law enforcement, background suitability determinations for contractors, including Child Care, and continuity of operations plan activation support.

The OIG remains concerned about the protection of federal buildings because of the shortcomings in FPS's ability to provide security that have been identified by the GAO and the availability of funding for building security measures. In FY 2009, GAO identified significant issues with FPS's ability to provide security, including weaknesses in the Contract Guard program and lack of a risk management framework to ensure the security of federal buildings and facilities. Further, a FY 2008 GAO report noted that FPS was experiencing difficulties in fully meeting its facility protection mission due to staffing and operational issues.

The availability of funding for security measures is also an issue. Under the existing MOA, security fixtures and mandatory security equipment countermeasures valued above the prospectus-level, or installed in prospectus-level projects, have been purchased and installed by GSA on a prioritized, funds available basis. PBS Regional Commissioners reserve the right not to implement mandatory measures, after consulting with DHS. With the exception of prospectus-level equipment or projects, security equipment determined by FPS to be a mandatory countermeasure is supposed to be funded by DHS or tenant agencies through Security Work Authorizations, on a prioritized, funds-available basis. FPS has been experiencing major funding shortfalls which could affect the availability of future funding for upgrades and replacement of the security countermeasure equipment initially authorized directly by Congress.

AGENCY ACTIONS: GSA formed a Security Division within the PBS Office of Facilities Management and Services Programs, including a Regional Security Network. The Security Division has taken an active role on Interagency Security Committee (ISC) working groups which have been addressing significant areas, such as revised standards for facility security level determinations and baseline standards for existing facilities. The agreement between GSA and FPS addressed the roles, responsibilities and operational relationships between FPS and GSA concerning the security of GSA-controlled space. Negotiation of a new MOA is presently on hold, pending the proposed shifting of FPS from the Immigration and Customs Enforcement bureau into the National Protection and Programs Directorate. The new MOA will have to take into account numerous areas, including ISC security standards, security equipment maintenance and the impact of FPS's policy change to transition to an inspector based workforce.

FEDERAL BUILDINGS FUND

ISSUE: Challenges Exist for Capital Projects and Long-Term Funding. PBS is one of the largest real property organizations in the world. Its building inventory consists of over 8,600 assets, mostly general purpose office space in federal buildings and leases, with almost 352 million square feet of rentable space, and housing over a million federal employees. Leased space accounts for approximately 51 percent of the portfolio. Real property operations are funded through the FBF. The FBF is a revolving fund in that rent collected by PBS is deposited into the fund. Those funds are then used to not only make lease payments and operate government-owned buildings, but also for investment in the capital program to repair and modernize facilities and construct new buildings within the limits set annually as part of the budget process. The buildings in PBS's owned portfolio have an average age of 46 years and require approximately $5 billion in reinvestment for repairs and alterations. The OIG is concerned that the recent influx of funding from the Recovery Act for capital projects introduces new risks. Further, while GSA devotes its attention to the Recovery Act projects, it is important that long-term funding issues still be addressed, since funding beyond FY 2009 may not meet GSA's needs to ensure that buildings are properly maintained.

Capital Projects

The Recovery Act will create an additional burden on GSA due to the volume of the funding and the short time frame for obligating the funds. GSA's capital program is typically funded at $1.3 billion annually and GSA's staffing is geared toward this level of funding. However, the Recovery Act increases construction funding to four times GSA's typical construction budget for a single year and requires GSA to obligate the majority of that funding in a 20-month period. This workload will strain GSA's capabilities as resources must be devoted to plan for new projects and acquisitions in a shortened timeframe. As resources are diverted to these projects, GSA's other construction work may be impacted by delays or rushed work.

Long-term Funding Issues

Until recently, the funding for capital projects had been decreasing. This funding decrease was exacerbated by increasing construction costs, which led to fewer projects at the same funding level. However, the funding situation changed in FY 2009. Through the Recovery Act, GSA received $1 billion for new federal buildings, courthouses and land ports of entry, as well as $4.5 billion to convert the GSA owned buildings to high performance green buildings.

To replenish the FBF and provide funds for the capital program, PBS will continue to rely on its operations. However, its net revenue has been falling. In FY 2005, PBS's net revenue was $974 million, but that fell to $551 million in FY 2008. Likewise, PBS's primary measure for tracking the incoming Funds From Operations (FFO), which is essentially net revenue before depreciation is deducted, or total revenue less all expenses except depreciation, has also dropped. PBS's FFO peaked in FY 2005 at $1.762 billion, and dropped to $1.623 billion in FY 2008. PBS's net revenue and FFO have been falling as operating costs for its owned buildings have increased faster than revenues. In addition, net revenue has also been impacted by PBS's leasing operations, which lost $25.5 million in FY 2007 and $68.7 million in FY 2008.

PBS's revenue and expense picture for the future is mixed. PBS rental rates for owned space are based on market appraisals that are set well in advance of taking affect, and leases are supposed to be priced so that they are revenue neutral, incurring neither a profit nor a loss. PBS revenue from owned space should increase as new buildings and renovated buildings are put into operation. However, the increase may be limited as the current market appraisals used to establish future rental rates are affected by the current economic downturn. Additionally, PBS's leasing revenue will be affected by the reduction of its leasing fee from eight percent to seven percent (from six to five percent for non-cancelable leases) that took effect in FY 2008.

Conversely, the rise in PBS's operating expenses should slow down. The current economic slowdown could help to slow the rise in operating costs, such as cleaning and maintenance, as competition in the current environment should lead to lower contract costs. Also, in the future, PBS could see its energy consumption reduced as it uses Recovery Act funds to take measures to convert its buildings to high performance green buildings. If these measures are effective, PBS's future energy consumption should be reduced, and the increases in its energy costs should slow or be reduced accordingly. However, until these measures are in place and operating, energy costs will likely continue to impact PBS.

The capital reinvestment needs of PBS's government–owned buildings have been growing. Without the necessary funding for reinvestment, buildings will continue to deteriorate, and as a result, rent prices would also be lower as the building conditions are reflected in the rent appraisals, leading to even lower revenue. Using leasing as a long-term solution may not be feasible, as lease operations are only expected to break even, and have recently been losing money.

AGENCY ACTIONS: To address this challenge, PBS is taking action in several different ways. To provide oversight to the Recovery Act work, PBS has established a program management office at the central office level, and put vehicles in place to obtain supplemental assistance in the conduct of the Recovery Act work. With regard to current assets, PBS is taking short term and long term steps. In the short term, PBS has requested $525 million in new appropriations in its FY 2010 budget request. These funds are needed to ensure PBS's capital program stays on plan in the near term. In the long term, PBS has implemented a portfolio strategy to maximize income-producing properties and identify underperforming assets. PBS has also adjusted its priorities to address these issues.

In FY 2007, the former PBS Commissioner also identified PBS's priority areas, several of which affect the capital program. His priorities include improving PBS's real property capital project planning and delivery. To achieve this, PBS is developing project monitoring and mitigation tracking tools, and establishing national program standards for ownership of project data accuracy. PBS is also executing a national training strategy and action plan for project managers, as well as developing future leadership in the Office of the Chief Architect. The primary goal of these efforts is to deliver projects on time, on budget and within scope.

PBS's priorities also include exploring ways to leverage funding of real property capital projects to help offset the growing burden of capital funds. PBS is examining increased investment in real property through the use of alternative financing options, as an opportunity to support further investment and reinvestment in its portfolio. To do this, PBS is seeking to use authorities identified under Section 412 of the FY 2005 appropriation law. Under this authority, PBS was given the authority to not only deposit proceeds from the disposal of GSA owned property into the FBF, but also the ability to out-lease GSA owned property and then lease it back. With these authorities, PBS would like to out-lease properties in need of reinvestment to an entity that would perform the needed repairs and alterations, and then leaseback the renovated property from that entity. Thus the reinvestment costs will be financed through a lease arrangement rather than being funded directly through the FBF.

PBS is also examining its leasing program results. It is working to identify leases with negative financial results and take steps to mitigate the losses. It is also working to address its lease extensions and holdovers that impact its leasing workload. PBS will also be working to find opportunities for reduced lease rates in the current economic environment and take advantage of these opportunities to reduce its leasing costs.

November 10, 2009

MEMORANDUM FOR BRIAN D. MILLER
INSPECTOR GENERAL (J)

FROM: PAUL F. PROUTY
ACTING ADMINISTRATOR (A)

SUBJECT: Inspector General's Assessment of the U.S. General Services Administration's Major Challenges

Thank you for providing me with the opportunity to review your assessment of the major challenges currently facing the U.S. General Services Administration (GSA) and the agency's progress in addressing those specific challenges. We have continued to direct efforts toward the six major management challenges the Office of Inspector General (OIG) believes are facing GSA today: Acquisition Programs, Management Controls, Information Technology (IT), Human Capital, Protection of Federal Facilities and Personnel, and the Federal Buildings Fund. The attachment highlights and provides information and clarification on several items covered in the OIG's updated assessment.

GSA acknowledges these challenges and is implementing a broad range of measures to address the challenges, including migrating from existing FTS2001 contracts; mitigating the potential of invalid financial transactions; developing an IT Strategic Business Plan for FY 2010-2012; planning for Cloud Computing services; initiating the GSA "Lean Hiring" program; and thoroughly managing the American Recovery and Reinvestment Act of 2009.

GSA recognizes that the OIG can provide invaluable assistance to GSA management in our stewardship of taxpayer resources.

I look forward to continuing to work with the OIG to minimize, if not eliminate, waste, fraud, and abuse and promote greater Government effectiveness and efficiency.

Attachment

U.S. General Services Administration
1800 F Street, NW
Washington, DC 20405-0002
Telephone: (202) 501-0800
Fax: (202) 219-1243
www.gsa.gov

Agency Management Comments on the Office of Inspector General's Assessment of GSA's Major Management Challenges

ACQUISITION PROGRAMS

ISSUE: *Challenges exist in the Multiple Awards Schedules Program pertaining to pricing and compliance*.

GSA's Federal Acquisition Service (FAS) takes some exception to the Office of the Inspector General's (OIG) characterization of the challenges that exist within the Multiple Award Schedules (MAS) program pertaining to pricing and compliance. While the MAS Program scope is broad and its impact far reaching, the program does consistently meet both its statutory and regulatory obligations relating to both pricing and compliance. The OIG's assessment makes broad assertions that there is a lack of emphasis on pricing and compliance with the terms and conditions of MAS contracts. More specifically, the assessment cites that fundamentals have been lacking regarding a mandate "to seek offeror's best price, Most Favored Customer (MFC) pricing, the requirement to perform meaningful price and cost analysis when awarding or extending contracts, and the use of field pricing to assist in negotiating." This statement mischaracterizes the actual challenge faced by FAS and the MAS program. Furthermore, the assessment fails to consider all relevant ongoing agency actions that affect MAS pricing and compliance, and dynamic changes ongoing within the program, many of which are in response to multiple audits tangentially or directly touching on pricing over the last few years.

The negotiation objectives for MAS contracts are set forth in General Services Administration Acquisition Regulation (GSAR) 538.270 which states, "The government will seek to obtain the offeror's best price (the best price given to the most favored customer). The government recognizes that the terms and conditions of commercial sales vary and there may be legitimate reasons why the best price is not achieved." This regulation directs GSA contracting officers (CO) to compare the terms and conditions of sale, as well as other key factors that may influence a determination of fair and reasonable pricing, the outcome of negotiations, and the ability of the government to achieve MFC, which includes not just price, but price related terms and conditions.

The overall best value for the government that the MAS program provides is achieved not only through the GSA COs' determination of fair and reasonable pricing (based on commercial practices, market research, and the terms and conditions of the contract), but also pursuant to the ordering activities' compliance with the Federal Acquisition Regulation (FAR) Subpart 8.4 ordering procedures. GSA's statutory authority for the MAS program, 41 U.S.C. 259(b)(3), states, "the procedures established by the Administrator for the multiple awards schedule program of the General Services Administration if--(A) participation in the program has been open to all responsible sources; and (B) orders and contracts under such procedures result in the lowest overall cost alternative to meet the needs of the government." The key phrase is that orders and contracts result in best value to the government; not just contracts, as the assessment asserts. Ordering activities are most often best able to leverage the government's buying power with a determination of best value for a specific scope and need. They can further leverage aggregate volume demand and further competition by establishing multiple Blanket Purchase Agreements. In addition, GSA provides other solutions that can leverage the government's aggregate buying power through efforts such as Strategic Sourcing, SmartBuy and the Global Supply program.

While FAS recognizes the importance of pricing in each of its programs, we also recognize the importance of competition and pricing at each level of the programs we administer. Further negotiation, competition and leverage exercised at the most appropriate time in the acquisition cycle will yield the best price for the government. We continue to refine our processes to effectively deliver products and services at competitive pricing taking into account the entire acquisition cycle.

Furthermore, the OIG's assessment cites pre-award and post-award audits as the main basis for assertion over flaws in vendor proposal information and lack of contract compliance with MAS contract terms and conditions. However, the OIG conducts these audits on the behalf of FAS, and FAS seeks audit assistance from the OIG because these contracts are the most high dollar value and riskiest MAS contracts. These contract audits do not occur on enough offers and contracts to be statistically significant and are derived from a nonrepresentative based sample of the total population. Accordingly, valid conclusions cannot be drawn from this information and more information is required before it would be proper to conclude that these issues exist across the program. This year, the GSA FY 2010 audit plan notes plans for only 60 to 65 audits down from 70 the previous year from a potential pool of 17,000 contracts.

There are several ongoing agency actions addressing this management challenge that the OIG assessment fails to address. Currently, there is a GSAR case that is rewriting General Services Administration Acquisition Manual (GSAM) Subpart 538-Federal Supply Schedule Contracting, the regulatory foundation of the program. This case updates the MAS policies that affect pricing and compliance. Additionally, a FAR case has been opened to implement Section 863 of the FY 2009 National Defense Authorization Act (NDAA), which statutorily requires additional competition requirements government-wide for schedule orders over the simplified acquisition threshold. Lastly, GSA has established a MAS Advisory Panel, which is providing independent advice and recommendations to the GSA Acting Administrator on pricing and price reduction provisions of the MAS program.

FAS is also improving its Performance Measurement program, which was instituted eight years ago and has experienced few changes over the years. Given the limited changes, the performance measures on the balanced scorecards have not kept pace with the organizational goals and strategic priorities of FAS. For FY 2010, the Office of Strategic Business Planning and Process Improvement is working to reduce the quantity of measures and increase the quality and strategic focus of the measures. Additionally, it is obtaining an independent review of the Performance Measures program to determine what program changes should take place beginning with the FY 2011 cycle to ensure scorecards remain relevant to the FAS strategies and foster portfolio and employee participation toward common goals, including contract quality.

Particular to the MAS program, the Office of Strategic Business Planning and Process Improvement is partnering with the MAS Program Office and the MAS Governance Council in the development of a MAS strategic plan that will include long-term goals and objectives to improve the program and to ensure it continues to provide best value for the government and the taxpayer. Metrics will be developed to gauge progress of the program toward the goals and objectives laid out in this plan and they will balance process, compliance and financials as they roll up to the MAS and FAS strategic goals.

All considered, these agency actions will institute substantial changes to the MAS program to include how it approaches pricing and compliance.

ISSUE: *GSA needs to ensure agencies transition to Networx in a timely manner.*

FAS has amended this OIG section to provide more detailed information, and the last two paragraphs under Agency Actions expand on the actions FAS is taking.

The transition of government agencies from the FTS2001 and Crossover contracts to the Networx contracts (Universal and Enterprise) is one of the largest telecommunications services transition ever undertaken by the federal government. It will involve more than 135 agencies, in more than 150 countries, more than 50 services, and thousands of voice and data circuits. The Networx contracts are valued at $68.2 billion, divided between Networx Universal and Networx Enterprise.

In May 2009 meetings, management stated they are on target with regard to budgeting; however, Agencies' transition progress needs to accelerate to ensure their transition is complete prior to the expiration of the FTS2001 and Crossover contracts – May/June 2011. As of August 2009, GSA officials stated that only half of the contractor selections had been made despite the September 2008 deadline for completing all fair opportunity decisions. The transition could require significant additional coordination between agencies, their components, GSA, and a host of telecommunications contractors and additional resources if agencies delay transition until the last few months prior to the expiration of the FTS2001 and Crossover contracts.

AGENCY ACTIONS: In an effort to decrease the immediate transition burden on agencies migrating from the existing FTS2001 contracts, GSA awarded bridge contracts that provide for continued service beyond the expiration of FTS2001 in 2006 and 2007. The bridge/crossover contracts are set to expire in May and June 2010; however, continuity-of-service contract provisions allow the contracts to be extended until May/June 2011.

GSA, in partnership with agencies, has established a Transition Cost Reimbursement Fund with critical milestones to incentivize transition progress and has developed, in partnership with agencies, a myriad of tools and transition guidelines to enable a smooth and timely transition.

GSA is increasing direct transition support to agencies in order to accelerate the pace of transition. Under the "Realizing the Rewards" initiative GSA has/is:

- Engaged direct agency CIO involvement in the transition describing the lack of transition progress and the cost associated with failure of the agencies to complete the transition within the timeline available.
- Established an Inter-Agency Management Council Executive Steering Committee to elevate CIO participation and support of Agencies' transition activities.
- Offered agencies direct assistance in the areas of acquisition, technical and operational support.
- Reinvigorated monthly Agency Transition Working Group meetings with a focus on measuring and reporting transition progress and resolving common issues.
- Offering to complete all transition activities for very small agencies.
- Reviewing and streamlining all GSA transition activities.
- Making transparent all measures of agency transition progress.

FINANCIAL REPORTING

The Financial Reporting discussion in the report states that the auditors have reported since FY 2004 that there are deficiencies with GSA's financial management systems, processes and "substantial transaction errors resulting from insufficient controls related to reporting of budgetary accounts and balances."

While there may be insufficient "automated" controls built into the systems, there are significant manual controls that help ensure that the reporting is accurate. The statement that our controls are "insufficient" is misleading.

The report notes that the root cause of the issues identified relate to the agency's business feeder systems and reliance on "costly compensating processes". It goes on to state that "GSA systems, including its financial system of record, Pegasys, continue to have deficiencies in interoperability and interfaces." However, the "Agency Action" section only mentions short term work around actions and does not mention the major systems modernization effort under way, Lean Sigma Six effort to reduce worksheet adjustments, establishment of the Financial Management Enterprise Architecture or the development of the Standard Acquisition Interface.

While GSA does employ certain manual controls instead of automated controls, we believe we have an appropriate mix of automated and manual controls given our current resource and system environments. Given our history of unqualified audit opinions, no current material weaknesses, and a history of early annual report submissions before the November 15 deadline, we respectively assert that our current control environment is not only sufficient, but superior to many control environments found in the federal financial industry.

INFORMATION TECHNOLOGY

GSA Services and Staff Offices have requested funding for new information technology (IT) programs and initiatives, as part of the Agency's FY 2010 Budget. These new IT programs and initiatives seek to better manage GSA's legacy systems environment. An example is the Public Buildings Service, E-Gov initiatives. The PBS-CIO requested funds are actually in the amount of $12.5 million; $9.5 million for the System for Tracking and Administering Real Property (STAR) replacement; $1.5 million for a Pegasys-Comprizon interface; and $1.5 million to implement the Billing and Accounts Receivable (BAAR) solution.

AGENCY ACTIONS: The Cloud Computing team, not the IT Infrastructure Line of Business team, is working with the Office of Management and Budget's E-Government and budget offices to ensure consistency with related federal IT programs such as the Federal Enterprise Architecture Program Office, Strategic Sourcing and the Information Systems Security Line of Business. Additionally, this team is supporting government-wide cloud computing initiatives. As part of this effort, the team will assist with: developing a strategic approach for the federal cloud(s); addressing barriers and compliance issues; developing mechanisms to purchase infrastructure as a service; identifying and providing access to standard collaboration and communication tools, and allow agencies to acquire cloud services as a commodity.

HUMAN CAPITAL

The assessment properly points out GSA's challenges with its retirement-eligible workforce, its attrition rate, and the federal hiring process. However, in its "Agency Actions" section, the OIG does not discuss:

1. GSA's designation as one of the top places to work in the government. The assessment states that GSA must take action to set itself apart as an employer of choice, yet GSA has had its top 10 rating for a number of years. Further, it is one of leading agencies in telework policy and practice—a very attractive recruitment and retention tool.

2. GSA's employee retention. The OIG references the eight percent GSA attrition rate but does not discuss what makes up that rate—agency transfers, retirements, removals (note that the FAS attrition rate was seven percent for FY 2009). GSA's efforts to improve hiring will continue to be a management challenge unless similar efforts are established to focus on the existing workforce.

3. GSA's actions to utilize Direct Hire Authority (DHA) for its 1102 workforce in Washington, D.C., New York City, Philadelphia, and Fort Worth. FAS has increased its workforce in FY 2009 through the use of many hiring authorities (interns, merit promotion, veterans, DHA, Peace Corps).

4. The opportunities to maximize the human resource (HR) workforce with the transfer of function to the Office of the Chief Human Capital Officer. It is vital that this now national HR resource pool is established and managed in such a way that it reduces existing traditional stove piped HR officers' lines of control so that work can be redirected to address changing customer needs.

PROTECTION OF FEDERAL FACILITIES AND PERSONNEL

GSA management has no additional comments on the Public Buildings Service.

FEDERAL BUILDING FUND

GSA management has no additional comments on the Public Buildings Service.

IMPROPER PAYMENTS INFORMATION ACT

IMPROPER PAYMENT RISK ASSESSMENT

Due to the inherent lag in reviewing and evaluating improper payments, GSA received approval from OMB to report prior year Improper Payments Information Act (IPIA) and Recovery Audit program results for current year reporting in an effort to obtain more accurate estimates of improper payments and recovery effectiveness. In FY 2009, GSA performed a complete review of the internal controls surrounding the disbursement process and conducted a comprehensive risk assessment with the goal of estimating improper payment rates over each of GSA's externally reported programs. This systematic review considered the results of a statistical sampling review with the results of a global review of key disbursement risks using computer assisted auditing techniques, and included the results of GSA's post payment review and Recovery Audit, to assess overall program improper payment risks.

OMB defines a high risk program as having improper payments, greater than $10 million and over 2.5 percent of program disbursements. Based on this systematic review of all programs, none of the GSA programs were identified as being high risk or susceptible to significant erroneous payments. While most programs were assessed as low risk, the Rental of Space, Building Operations, General Supplies Services portfolio, and the Reimbursable Work Authorizations programs were all assessed as medium risk, as they each were estimated to have at least 0.1 percent of program dollars and $1 million of payments paid improperly. These medium risk programs collectively are responsible for 72 percent of the disbursement transactions and 92 percent of the $48.9 million in payment dollars identified as improper in this review.

The overall improper payment rate for GSA was assessed at 0.29 percent with approximately $48.9 million being identified as improper out of the $16.7 billion of FY 2008 disbursements. Improper payments were identified as overpayments, underpayments, or payments without proper authorization or supporting documentation. This broader definition of improper payments is the reason over two times the amount of improper payments were identified in this review as compared to the improper payments identified through the Recovery Audit program. The results of the risk assessment including program risk assessments, estimated improper payment dollars and rates, are presented in Table 1.

Table 1: Results of FY 2009 Risk Assessment of FY 2008 Disbursements

Program	Dollars of FY 2008 Disbursements	Number of FY 2008 Disbursements	FY 2008 Disbursements Paid Improperly	Percent of Dollars Paid Improperly	Overall Program Risk Assessment
FAS AAS Portfolio	$3,698,739,888	32,996	$498,313	0.0135%	Low
FAS Integrators	$167,422,047	14,888	$160,851	0.0961%	Low
FAS GSS Portfolio	$1,293,516,335	1,052,371	$2,208,816	0.1708%	Medium
FAS ITS Portfolio	$1,073,468,138	76,622	$62,906	0.0059%	Low
FAS TMVCS Portfolio	$2,237,925,908	131,058	$1,838,801	0.0822%	Low
External Services	$296,462,530	90,428	$327,624	0.1105%	Low
GM&A	$206,982,317	69,014	$527,970	0.2551%	Low
PBS Building Operations	$1,407,684,844	250,446	$4,529,751	0.3218%	Medium
PBS Major Repairs and Alterations	$519,938,072	3,085	$207,267	0.0399%	Low
PBS Minor Repairs and Alterations	$416,778,140	10,910	$205,315	0.0493%	Low
PBS New Construction and Acquisition	$549,769,336	2,896	$0	0.0000%	Low
PBS Reimbursable Work Authorization	$835,399,462	29,732	$1,826,323	0.2186%	Medium
PBS Rental of Space	$4,008,138,359	111,562	$36,527,573	0.9113%	Medium
Total	**$16,712,225,382**	**1,876,008**	**$48,921,509**	**0.2927%**	

RECOVERY AUDIT PROGRAM

GSA's Recovery Audit program reviewed $13.3 billion of the $15.3 billion in disbursements subject to review for FY 2009 reporting. Payments subject to other independent audits which include Construction, Fleet and the Transportation programs were excluded from review. The Recovery Audit program has identified over $220 million of overpayments since 2004 and successfully recovered over $88 million. All amounts recovered are returned to the original program, excluding a contingency fee paid to the recovery audit contractor upon successful collection of contractor identified claims. Current and prior year results of the Recovery Audit program are presented in "Recovery Auditing Results" table.

Recovery Auditing Results
Current Year (FY 2009) and Prior Years (FYs 2004 through 2008)

Agency Component	Amount Subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY	Amounts Identified for Recovery PYs	Amounts Recovered PYs	Cumulative Amounts Identified for Recovery (CY + PYs)	Cumulative Amounts Recovered (CY + PYs)
GSA-wide	$15.3 B	$13.3 B	$23.1 M	$9.1 M (40%)	$187.7 M	$88.8 M (47%)	$220.6 M	$97.9 M (44%)

GSA's FY 2009 Recovery Audit Program Results

Recovery Audit Program Costs	**$2,008,561**
Agency Salaries & Expenses	$169,900
Total Contracted Expenses	$1,838,661
Paid	$1,354,804
Due	$483,856
Total Payment Errors Identified	**$23,059,752**
Discovered by Contractor	$8,861,017
Amount Unrecoverable	$0
Amount Recovered	$6,529,178
Amount Outstanding	$2,331,839
Discovered Internally by GSA	$14,198,735
Amount Unrecoverable	$25,948
Amount Recovered	$2,584,391
Amount Outstanding	$11,588,397

The Recovery Audit program has been working with managers to improve the efficiency and effectiveness of the recovery audit process, from payment review to claim collection. Business process changes have been proposed and new controls identified to prevent further occurrences of known disbursement risks. One change involves strengthening the post-payment review process to support risk-based reviews of key disbursement risks and provide managers with continuous monitoring over the disbursement process.

Obtaining the necessary supporting documentation to assess the validity of payments remains a challenge due to documentation not existing in electronic form and difficulties in accessing the supporting documentation in the many business and feeder systems that exist across GSA. Better system integration and wide-spread adoption of electronic imaging of key supporting documentation would help address this problem, reduce the cost of these reviews, and improve the accuracy and timelines of the post-payment and pre-payment review processes at GSA.

Over the upcoming fiscal year, GSA plans to expand the scope of the Recovery Audit program to aggressively pursue improper payments in risk areas identified in the FY 2009 IPIA Risk Assessment, which include utility payments, telecommunications payments (local and long distance) and Recovery Act payments. These reviews, combined with efforts underway to strengthen controls to address the weaknesses identified in the IPIA review, are expected to significantly reduce GSA's improper payments in FY 2010. Results of recovery audits will continue to be monitored monthly, root causes of improper payments reviewed, and controls reviewed annually and tested as part of the A-123 assessment of internal controls over financial reporting. GSA continues to view the Recovery Auditing program as a key element of its overall program of effective internal controls over the payment process.

OTHER, AGENCY-SPECIFIC STATUTORILY REQUIRED REPORTS

DEBT MANAGEMENT

GSA reported $163.8 million of outstanding debt from nonfederal sources, of that amount, $12.9 million, or 7.9 percent, of the outstanding debt was delinquent at the end of FY 2009. The amount of delinquent debt decreased from $14.5 million in FY 2008 to $12.9 million in FY 2009. Non-federal receivables consist of debts owed on third-party claims, travel advances, proceeds from the sale of real property and other miscellaneous receivables.

To comply with the Debt Collection Improvement Act of 1996, GSA transmits delinquent claims each month to the U.S. Department of the Treasury's (U.S. Treasury) Financial Management Service for cross-servicing collection. During FY 2009, the Office of the Chief Financial Officer referred over $5.1 million of delinquent non-federal claims to the U.S. Treasury for cross-servicing collection activities. Collections on nonfederal claims during this period exceeded $334.3 million and administrative offsets resulted in additional collections of $27.9 million. GSA also collected 82 Pre-Authorized Debits totaling $82,542 of nonfederal claims in FY 2009.

GSA actively pursues delinquent non-federal claims using installment agreements, salary offset, administrative wage garnishment, and any other statutory requirement or authority that is applicable. GSA is continuing to remove all non-paying claims over two-years-old from its accounts receivable subsidiaries.

For information on GSA's intragovernmental debt refer to note six in the Notes to the Financial Statements.

CASH AND PAYMENTS MANAGEMENT

The Prompt Payment Act, along with the Debt Collection Improvement Act of 1996, requires the timely payment of commercial obligations for supplies and services using electronic funds transfer (EFT). In FY 2009, GSA paid interest of $1.9 million on disbursements of $16.7 billion, or $116.53 in interest per million disbursed. GSA recalculated interest paid in two previously reported years and determined that interest on some of the payments for leased space needed to be revised. GSA has revised FY 2007 – FY 2009 Total Dollars of Interest Penalties and Interest Paid per Million Disbursed. During FY 2009, several unique events caused increases in the interest paid by GSA. The first of these events was the transition of invoice processing functions from contractors to GSA staff. This transition caused a delay in the processing of incoming invoices, resulting in increased interest paid on invoices during this period. Secondly, during an upgrade in GSA's core accounting system, Pegasys, March rent payments were delayed by one day resulting in interest penalties. Finally, GSA incurred interest on late payment of taxes due on GSA leases. GSA also continues to make progress on invoices that are paid electronically with an overall increase of 1.9 percent over last year. The statistics for the current and restated preceding two fiscal years are as follows:

	FY 2007	FY 2008	FY 2009
Total Number of Invoices Paid	1,136,760	1,223,824	1,450,011
Total Dollars Disbursed	$14.8 Billion	$15.2 Billion	$16.7 Billion
Total Dollars of Interest Penalties	$506,617	$730,643	$1,944,630
Interest Paid per Million Disbursed	$34.41	$47.93	$116.53
Percentage of Invoices Paid On Time	99.0%	98.6%	98.3%
Percentage of Invoices Paid Late	1.0%	1.36%	1.70%
Percentage of Invoices Paid Electronically	95.5%	96.8%	98.7%

DESCRIPTION OF INDEPENDENT AND CENTRAL OFFICES

- **Office of Inspector General (OIG):** The OIG conducts an independent nationwide audit and investigative program of GSA's internal operations, programs and external contractors. The OIG promotes economy, efficiency and effectiveness; and prevents and detects fraud, waste and mismanagement in the Agency's programs and operations.

- **Civilian Board of Contract Appeals (CBCA):** CBCA serves as an independent and objective tribunal in contract disputes between government contractors and GSA, and contractors and other executive agencies. CBCA provides alternative dispute resolution services to all federal agencies and contractors. The board also hears claims involving transportation rate determinations, federal employee travel, relocation and expense claims, and a small number of other types of claims.

- **Office of the Chief Financial Officer (OCFO):** The OCFO provides financial management services for all of GSA and more than 40 external customers. The OCFO manages strategic planning, budgeting and the performance management cycle within GSA; manages GSA's core accounting system; and prepares financial statements and reports.

- **Office of the Chief Information Officer (OCIO):** The OCIO provides high quality, enterprise IT services and solutions at best value by leveraging IT resources to support GSA business needs.

- **Office of the Chief Human Capital Officer (OCHCO):** The OCHCO develops and delivers programs, policies and services that promote GSA's strategic management of human capital. A capable and well managed workforce is essential to GSA's success.

- **Office of Citizen Services and Communications (OCSC):** OCSC creates a more citizen-centric, results-oriented federal government. OCSC helps citizens to interact with the government by creating a single electronic front door to the services and information they require in the medium preferred: the Web, e-mail, telephone, fax or print. OCSC also provides in-house communications support to the rest of GSA, and is a liaison with the media.

- **Office of Civil Rights (OCR):** OCR ensures equal employment opportunity (EEO) for all GSA associates and applicants for employment on the basis of sex, race, color, national origin, religion, disability and age, and protects associates from retaliation for protected EEO activity. OCR protects recipients of GSA's Federal Financial Assistance program and participants in federally conducted programs from discrimination.

- **Congressional and Intergovernmental Affairs (OCIA):** OCIA maintains Agency liaison with Congress; prepares and coordinates GSA's annual legislative program; communicates GSA's legislative program to OMB, Congress, and other interested parties; and works closely with OMB in the coordination and clearance of all proposed legislation impacting GSA.

- **Office of Emergency Response and Recovery (OERR):** OERR is responsible for ensuring that GSA maintains a constant state of readiness to provide emergency acquisition support and emergency real property to federal agencies in the event of a disaster or catastrophic event. OERR coordinates GSA's national continuity responsibilities by: developing Agency policies, plans and procedures; developing and implementing GSA disaster readiness programs; and providing emergency acquisition support and serving as the on-the-ground liaison between GSA field organizations and federal emergency response efforts during national disasters. OERR coordinates emergency management services throughout GSA, and develops emergency preparedness procedures, shelter-in-place guidelines and training to assist employees in the event of an emergency.

- **Office of General Counsel (OGC):** The OGC provides legal advice and representation to GSA services and staff offices to enhance their ability to help federal agencies. The OGC carries out all legal activities of GSA, ensures full and proper execution of GSA's statutory responsibilities, and provides legal counsel to GSA officials.

- **Office of Governmentwide Policy (OGP):** OGP improves government-wide management. Its responsibilities span personal and real property, travel and transportation, IT, regulatory information, and use of federal advisory committees. OGP accomplishes its mission through collaboration with federal agencies and other stakeholders.

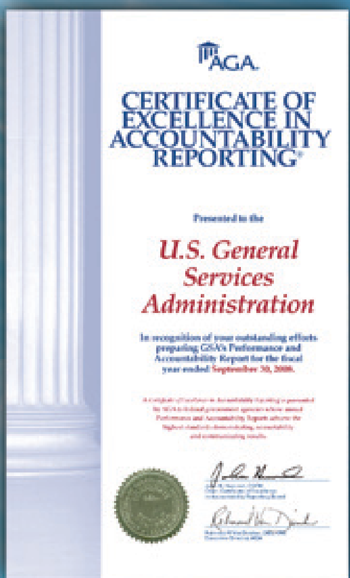
- **Office of Performance Improvement (OPI):** OPI studies, designs and oversees action plans to meet GSA's strategic goal of continuous performance improvement. OPI provides advice on major policies and procedures related to GSA performance functions to the Administrator and Deputy Administrator.

- **Office of Small Business Utilization (OSBU):** OSBU advocates for small, minority, veteran, historically underutilized business zone (HUBZone) and women business owners. OSBU promotes increased access to GSA's nationwide procurement opportunities by nurturing entrepreneurial opportunities, outreach and training.

Acronyms and Abbreviations

AAS	Assisted Acquisition Services
AFR	Agency Financial Report
ASF	Acquisition Services Fund
CSBR	Combining Statements of Budgetary Resources
CSRS	Civil Service Retirement System
DHS	U.S. Department of Homeland Security
DOL	U.S. Department of Labor
FAR	Federal Acquisition Regulation
FAS	Federal Acquisition Service
FASAB	Federal Accounting Standards Advisory Board
FBF	Federal Buildings Fund
FCSF	Federal Citizen Services Fund
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FFO	Funds from Operations
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FTE	Full-time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GM&A	General Management & Administration
GPRA	Government Performance and Results Act of 1993
GSA	U.S. General Services Administration
GSS	General Supplies and Services
IPIA	Improper Payments Information Act
IT	Information Technology
ITS	Integrated Technology Services
LEED	Leadership in Energy and Environmental Design
MAS	Multiple Award Schedules
MFC	Most Favored Customer
OCFO	Office of the Chief Financial Officer
OCHCO	Office of the Chief Human Capital Officer
OCSC	Office of Citizen Services and Communications
OGP	Office of Governmentwide Policy
OIG	Office of Inspector General
OMB	Office of Management and Budget
PBS	Public Buildings Service
PMR	Procurement Management Review
R&A	Repairs and Alterations
RWA	Reimbursable Work Authorization
SFFAS	Statement of Federal Financial Accounting Standards
TMVCS	Travel, Motor Vehicles and Card Services
TSP	Thrift Savings Plan
WCF	Working Capital Fund

Certificate of Excellence in Accountability Reporting



Acknowledgments

The FY 2009 Agency Financial Report is a collaboration endeavor on the part of many GSA employees and contractors. We would like to acknowledge and thank them for their hard work and commitment in successfully preparing this report and supporting the audit effort of the financial statements.

This report is available at GSA.gov/annualreport. Also linked to that site are GSA's Congressional Justifications and our past Performance and Accountability Reports.

GSA's past administrators celebrating GSA's 60th anniversary.

We offer special thanks to The DesignPond for their outstanding contributions in the design and production of this report.

For additional copies contact
General Services Administration
Office of Financial Policy and Operations
1800 F. Street, N.W., Washington, D.C. 20405

Other GSA Web pages of possible interest:

GSA Web site: ***www.gsa.gov***

www.gsa.gov/recovery

U.S. General Services Administration
1800 F Street, NW
Washington, DC 20405
www.gsa.gov